UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2020

OR

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

For the transition period from ___________ to _______________

Commission file number 001-39326

OPEN LENDING CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**84-5031428**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1501 S. MoPac Expressway Suite #450	**Austin**	**Texas**	**78746**
(Address of Principal Executive Offices)			(Zip Code)

(512) 892-0400

Registrant's telephone number, including area code

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.01 per share	**LPRO**	**The NASDAQ Stock Market LLC**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐ No ☒

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 and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).

Yes ☒ No ☐

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

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

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

The aggregate market value of voting stock held by non-affiliates of the Registrant on June 30, 2020, based on the closing price of $15.10 for shares of the Registrant's common stock as reported by the NASDAQ, was approximately $739.2 million. Shares of common stock beneficially owned by each executive officer, director, and holder of more than 10% of our common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.
☐ Yes ☐ No

APPLICABLE ONLY TO CORPORATE ISSUERS:

The registrant had 126,803,096 outstanding shares of common stock as of March 12, 2021.

DOCUMENTS INCORPORATED BY REFERENCE

Selected portions of the Company's definitive proxy statement for the 2021 annual meeting of stockholders are incorporated by reference into Part III of this Form 10-K.

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PART I

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this prospectus may constitute “forward-looking statements” for purposes of the federal securities laws. Our forward-looking statements include, but are not limited to, statements regarding our or our management team’s expectations, hopes, beliefs, intentions or strategies regarding the future. In addition, any statements that refer to projections, forecasts or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. The words “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intends,” “may,” “might,” “plan,” “possible,” “potential,” “predict,” “project,” “should,” “would” and similar expressions may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking. Forward-looking statements in this prospectus may include, for example, statements about:

- the benefits of the Business Combination;
- our financial performance;
- changes in our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects and plans;
- the impact of the relative strength of the overall economy, including its effect on unemployment, consumer spending and consumer demand for automotive products;
- the growth in loan volume from OEM Captives relative to that of other automotive lenders, and associated concentration of risks;
- expansion plans and opportunities;
- compliance with an increasing and inconsistent body of complex laws and regulations, including with respect to data privacy, at the U.S. federal, state and local levels;
- increased regulatory compliance burden and costs associated with the Consumer Financial Protection Bureau ("CFPB") monitoring the loan origination and servicing sectors, and its recently issued rules;
- our ability to obtain and maintain the appropriate state licenses;
- changes in applicable laws or regulations; and
- the outcome of any known and unknown litigation and regulatory proceedings.

These forward-looking statements are based on information available as of the date of this prospectus, and current expectations, forecasts and assumptions, and involve a number of judgments, risks and uncertainties. Accordingly, forward-looking statements should not be relied upon as representing our views as of any subsequent date, and we do not undertake any obligation to update forward-looking statements to reflect events or circumstances after the date they were made, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

As a result of a number of known and unknown risks and uncertainties, our actual results or performance may be materially different from those expressed or implied by these forward-looking statements. For a discussion of the risks involved in our business and investing in our common stock, see the section entitled “Risk Factors.”

You should not place undue reliance on these forward-looking statements in deciding whether to invest in our securities. As a result of a number of known and unknown risks and uncertainties, our actual results or performance may be materially different from those expressed or implied by these forward-looking statements. Some factors that could cause actual results to differ include:

- the outcome of any legal proceedings that may be instituted in connection with the Business Combination and transactions contemplated thereby;
- the ability to maintain the listing of our common stock on NASDAQ;
- the risk that the Business Combination disrupts our current plans and operations as a result of the announcement and consummation of the transactions described herein;
- our ability to recognize the anticipated benefits of the Business Combination, which may be affected by, among other things, competition and our ability to grow and manage growth profitably;

- costs related to the Business Combination;
- changes in applicable laws or regulations;
- the effects of the COVID-19 pandemic on our business;
- the possibility that we may be adversely affected by other economic, business, and/or competitive factors; and
- other risks and uncertainties described in this prospectus, including those under the section entitled "*Risk Factors*."

Should one or more of these risks or uncertainties materialize, or should any of the underlying assumptions prove incorrect, actual results may vary in material respects from those expressed or implied by these forward-looking statements. You should not place undue reliance on these forward-looking statements.

Summary of Risk Factors

Risks Related to Our Business

- Our results of operations and continued growth depend on our ability to retain existing, and attract new, automotive lenders.
- A large percentage of revenue for Open Lending is concentrated with Open Lending's top ten automotive lenders, and the loss of one or more significant automotive lenders could have a negative impact on operating results.
- Open Lending's results depend, to a significant extent, on the active and effective adoption of the Lenders Protection Program ("LPP") by automotive lenders.
- Open Lending has partnered with only two major insurance carriers that underwrite and insure the loans generated using the LPP.
- Open Lending's financial condition and results of operations may be adversely affected by the impact of the global outbreak of the coronavirus.
- Open Lending has experienced rapid growth, which may be difficult to sustain and which may place significant demands on its operational, administrative and financial resources.
- If Open Lending experiences negative publicity, it may lose the confidence of automotive lenders and insurance carriers who use or partner with the LPP and Open Lending's business may suffer.
- Privacy concerns or security breaches relating to the LPP could result in economic loss, damage Open Lending's reputation, deter users from using Open Lending products, and expose Open Lending to legal penalties and liability.
- Changes in market interest rates could have an adverse effect on Open Lending's business.
- The loss of the services of Open Lending's senior management could adversely affect Open Lending's business.
- Open Lending's projections are subject to significant risks, assumptions, estimates and uncertainties. As a result, Open Lending's projected revenues, market share, expenses and profitability may differ materially from our expectations.
- Open Lending's vendor relationships subject Open Lending to a variety of risks, and the failure of third parties to comply with legal or regulatory requirements or to provide various services that are important to Open Lending's operations could have an adverse effect on its business.
- Litigation, regulatory actions and compliance issues could subject Open Lending to significant fines, penalties, judgments, remediation costs and/or requirements resulting in increased expenses.
- Fraudulent activity could negatively impact Open Lending's business and could cause automotive lenders to be less willing to originate loans or insurance carriers to be less willing to underwrite policies as part of the LPP.
- Cyber-attacks and other security breaches could have an adverse effect on Open Lending's business.
- Disruptions in the operation of Open Lending's computer systems and third-party data centers could have an adverse effect on Open Lending's business.
- If the underwriting models Open Lending uses contain errors or are otherwise ineffective, Open Lending's reputation and relationships with automotive lenders and insurance carriers could be harmed.

- Open Lending depends on the accuracy and completeness of information about Consumers, and any misrepresented information could adversely affect Open Lending’s business.
- Open Lending relies extensively on models in managing many aspects of Open Lending's business. Any inaccuracies or errors in Open Lending’s models could have an adverse effect on Open Lending's business.
- If assumptions or estimates Open Lending uses in preparing financial statements are incorrect or are required to change, Open Lending’s reported results of operations and financial condition may be adversely affected.
- The consumer lending industry is highly competitive and is likely to become more competitive, and Open Lending’s inability to compete successfully or maintain or improve Open Lending’s market share and margins could adversely affect its business.
- Open Lending’s revenue is impacted, to a significant extent, by the general economy and the financial performance of automotive lenders.
- Because Open Lending’s business is heavily concentrated on consumer lending in the U.S. automobile industry, Open Lending’s results are more susceptible to fluctuations in that market than the results of a more diversified company would be.
- Open Lending is, and intends in the future to continue, expanding into relationships with new lending partners, including the OEM Captive space, and Open Lending’s failure to comply with applicable regulations, or accurately predict demand or growth in those new industries, could have an adverse effect on its business.
- Open Lending may in the future expand to new industry verticals outside of the automotive industry, and failure to comply with applicable regulations, or accurately predict demand or growth in those new industries, could have an adverse effect on the Open Lending business.
- Open Lending’s business would suffer if it fails to attract and retain highly skilled employees.
- The Credit Agreement that governs Open Lending’s term loan contains various covenants that could limit its ability to engage in activities that may be in Open Lending’s best long-term interests.
- Open Lending may be unable to sufficiently protect its proprietary rights and may encounter disputes from time to time relating to its use of the intellectual property of third parties.
- Open Lending’s risk management processes and procedures may not be effective.
- Some aspects of Open Lending’s platform include open source software, and any failure to comply with the terms of one or more of these open source licenses could negatively affect its business.
- To the extent that Open Lending seeks to grow through future acquisitions, or other strategic investments or alliances, Open Lending may not be able to do so effectively.
- The effect of comprehensive U.S. tax reform legislation or challenges to Open Lending’s tax positions could adversely affect its business.
- Future changes in financial accounting standards may significantly change Open Lending’s reported results of operations.

Risks Related to Open Lending’s Regulatory Environment

- Open Lending is subject to some federal and state consumer protection laws.
- Open Lending’s industry is highly regulated and is undergoing regulatory transformation, which results in inherent uncertainty. Changing federal, state, and local laws, as well as changing regulatory enforcement policies and priorities, may negatively impact Open Lending’s business.
- The highly regulated environment in which automotive lenders and insurance carriers operate could have an adverse effect on Open Lending’s business.
- Open Lending is subject to regulatory examinations and investigations and may incur fines, penalties and increased costs that could negatively impact Open Lending's business.
- The contours of the Dodd-Frank UDAAP standard remain uncertain, and there is a risk that certain features of Open Lending's business could be deemed to be a UDAAP.

- Regulations relating to privacy, information security, and data protection could increase Open Lending's costs, affect or limit how Open Lending collects and uses personal information, and adversely affect its business opportunities.
- If Open Lending was found to be operating without having obtained necessary state or local licenses, it could adversely affect its business.
- Open Lending may in the future be subject to federal or state regulatory inquiries regarding its business.

Risks Related to the Business Combination and Integration of Businesses

- Open Lending's management has limited experience in operating a public company.
- We will incur significant increased expenses and administrative burdens as a public company, which could have an adverse effect on its business, financial condition and results of operations.
- We qualify as an emerging growth company within the meaning of the Securities Act, and if we take advantage of certain exemptions from disclosure requirements available to emerging growth companies, this could make our securities less attractive to investors and may make it more difficult to compare our performance to the performance of other public companies.
- We may from time to time be subject to litigation and other claims.
- Our ability to successfully operate the business will largely depend upon the efforts of certain key personnel. The loss of such key personnel could negatively impact our operations and financial results.
- Our principal stockholders and management control us and their interests may conflict with yours in the future.
- We will be required to make payments under the Tax Receivable Agreement for certain tax benefits we may claim, and the amounts of such payments could be significant.
- In certain cases, payments under the Tax Receivable Agreement may be accelerated and/or significantly exceed the actual benefits, if any, we realize in respect of the tax attributes subject to the Tax Receivable Agreement.
- We will not be reimbursed for any payments made to the Company Unit Sellers or Blocker Holder under the Tax Receivable Agreement in the event that any tax benefits are disallowed.
- Our amended and restated bylaws designate specific courts as the exclusive forum for certain litigation that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us.

Risks Related to Our Common Stock

- An active trading market for our common stock may not be sustained, which may make it difficult to sell the shares of our common stock you purchase.
- There can be no assurance that we will be able to comply with the continued listing standards of NASDAQ.
- The market price of our common stock may be volatile, which could cause the value of your investment to decline.
- Our issuance of additional capital stock in connection with financings, acquisitions, investments, our stock incentive plans or otherwise will dilute all other stockholders.
- Sales of a substantial amount of our common stock could cause the price of our securities to fall.
- The exercise of registration rights may adversely affect the market price of our common stock.
- Because we have no current plans to pay cash dividends on our common stock, you may not receive any return on investment unless you sell your common stock for a price greater than that which you paid for it.
- Future offerings of debt or equity securities by us may adversely affect the market price of our common stock.
- Certain provisions of our certificate of incorporation and bylaws could hinder, delay or prevent a change in control of us, which could adversely affect the price of our common stock.
- If securities and industry analysts publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

Item 1. *Business*

Open Lending Corporation, headquartered in Austin, Texas, provides loan analytics, risk-based loan pricing, risk modeling, and automated decision technology for automotive lenders throughout the United States of America which allows each lending institution to book incremental near-prime and non-prime automotive loans out of their existing business flow. The Company also operates as a third-party administrator that adjudicates insurance claims and premium adjustments on those automotive loans.

Nebula Acquisition Corporation ("Nebula"), our predecessor, was originally incorporated in Delaware on October 2, 2017 as a special purpose acquisition company for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination with one or more businesses. On June 10, 2020 (the "Closing Date"), Nebula consummated a business combination (the "Business Combination") pursuant to that certain Business Combination Agreement, dated as of January 5, 2020 (as amended by that certain Amendment No. 1 and Waiver, dated as of March 18, 2020, that certain Amendment No. 2 and Consent, dated as of March 26, 2020, that certain Amendment No. 3, dated as of May 13, 2020, and that certain amendment No. 4, dated as of June 9, 2020, the "Business Combination Agreement") by and among Nebula, Open Lending, LLC, a Texas limited liability company, BRP Hold 11, Inc., a Delaware corporation ("Blocker"), the Blocker's sole stockholder, Nebula Parent Corp., a Delaware Corporation ("ParentCo"), NBLA Merger Sub LLC, a Texas limited liability company, NBLA Merger Sub Corp., a Delaware corporation, and Shareholder Representative Services LLC, a Colorado limited liability company, as the Securityholder Representative.

Immediately upon the completion of the Business Combination and the other transactions contemplated by the Business Combination Agreement (the "Transactions", and such completion, the "Closing"), Open Lending, LLC became a wholly-owned subsidiary of ParentCo, and, ParentCo changed its name to Open Lending Corporation. The Company is now listed on the NASDAQ Stock Market ("NASDAQ") under the symbol "LPRO."

Unless the context otherwise requires, "we," "us," "our," "Open Lending," and the "Company" refers to Open Lending Corporation, the combined company and its subsidiaries following the Business Combination. "Open Lending, LLC" and "Nebula" refers to Open Lending, LLC and Nebula Acquisition Corporation prior to the Closing Date. Refer to Note 3 for further discussion on the Business Combination.

The Company has evaluated how it is organized and managed and has identified only one operating segment. All of the Company's operations and assets are in the United States, and all of its revenues are attributable to United States customers.

Company Overview

We are a leading provider of lending enablement and risk analytics to credit unions, regional banks and the captive finance companies of Original Equipment Manufacturers ("OEM Captives"). Open Lending's clients, collectively referred to herein as automotive lenders, make automotive loans to underserved non-prime and near-prime borrowers by harnessing our risk-based pricing models, powered by Open Lending's proprietary data and real-time underwriting of automotive loan default insurance coverage from insurers. Since Open Lending's inception in 2000, we have facilitated over $9.2 billion in automotive loans, accumulating over 20 years of proprietary data and developing over two million unique risk profiles. We currently cater to approximately 355 active automotive lenders.

Open Lending specializes in risk-based pricing and modeling and provides automated decision-technology for automotive lenders throughout the United States. We believe that we address the financing needs of near-prime and non-prime borrowers, or borrowers with a credit score between 560 and 699, who are underserved in the automotive finance industry. Traditional lenders focus on prime borrowers, where an efficient market has developed with interest rate competition that benefits borrowers. Independent finance companies focus on sub-prime borrowers. Borrowers that utilize the near-prime and non-prime automotive lending market have fewer lenders focused on loans with longer terms or higher advance rates. As a result, near-prime and non-prime borrowers often turn to sub-prime lenders, resulting in higher interest rate loan offerings than the consumers' credit profile often merits or warrants. Open Lending seeks to make this market more competitive, resulting in more attractive loan terms.

We believe that Open Lending's market opportunity is significant. The near-prime and non-prime automotive loan market in the U.S. is $250 billion annually, resulting in an approximate $14.4 billion annual revenue opportunity for Open Lending. Open Lending is currently serving less than 1% of this market, providing a significant opportunity for Open Lending to continue to grow. Open Lending addresses this market through the LPP.

Open Lending's LPP enables automotive lenders to make loans that are insured against losses from defaults. Open Lending has been developing and advancing the proprietary underwriting models used by LPP for approximately 20 years. LPP provides significant benefits to Open Lending's growing ecosystem of automotive lenders, automobile dealers and insurers.

A key element of LPP is the ability to facilitate risk-based interest rates that are appropriate for each loan and lender. Open Lending's interest rate pricing is customized to each automotive lender, reflecting the cost of capital, loan servicing costs, loan acquisition costs, expected recovery rates and target return on assets of each. Using Open Lending's risk models, Open Lending projects monthly loan performance results, including expected losses and prepayments for automotive lenders that use LPP. The product of this process is a risk-based interest rate, inclusive of elements to recover all projected costs, program fees and insurance premiums, given the risk of the loan, to return a targeted return on asset goal. For the fiscal year 2020, LPP generated, on average, approximately $1,155 in revenue per loan, inclusive of the program fee, administrative fee and profit share.

Automotive Lenders and Dealers. Open Lending's customers for its LPP are automotive lenders who rely on Open Lending to help them make more loans, by assessing the risk of the loan. Open Lending's customers also rely on Open Lending to assist in insuring against the default of these loans by helping pair these customers with highly-rated insurance companies that mitigate the added risk associated with lending to near-prime and non-prime borrowers. The LPP enables lenders to expand their lending guidelines to offer loans to borrowers with lower credit scores, potentially leading to higher loan advance rates and increased loan volumes. LPP is designed to provide a seamless, real-time experience for automotive lenders that is intuitive and easy to use. LPP integrates directly with lenders' existing loan origination systems ("LOS"), while also allowing the dealers and automotive lenders to electronically receive all-inclusive loan rates in real-time with no manual intervention.

Open Lending's business model is a B2B2C model. Open Lending's customers are automotive lenders, who serve millions of borrowers, who in turn are the customers of the automotive lenders. Open Lending gets access to loan application information from the automotive lenders. Open Lending supports loans originated through a number of channels, including direct loans where the customer interfaces directly with the lender, indirect loans through networks of auto dealers who work with Open Lending's automotive lenders, and in targeted refinance programs implemented by Open Lending's automotive lenders.

Insurers. The insurance carriers are required to maintain an "A" rating by A.M. Best insurance rating company. Open Lending partners with insurance carriers who provide default insurance to automotive lenders on individual automotive loans made by their lenders and LPP underwrites the risk on each loan application. The insurance carriers issue default insurance to Open Lending's automotive lending customers that cover the loans generated through LPP. The default insurance is "first loss" insurance with limits on coverage tied to vehicle recovery rates, which encourages Open Lending's automotive lenders to maximize recoveries on repossessed automobiles and creates a strong alignment of interest. As part of the insurance policy, the automotive lender is listed as the named insured under the policy representing a direct contractual relationship between the automotive lender and the insurer.

The insurance carriers contract with Open Lending's indirect wholly-owned subsidiary, Insurance Administrative Services LLC ("IAS"), to perform claims administration and in turn pay Open Lending administrative fees representing a portion of the insurance premiums paid by the automotive lenders. As Open Lending's subsidiary, IAS provides continuity of customer service and allows for a seamless experience between LPP and the automotive lenders. Open Lending has one-way exclusivity agreements with AmTrust North America, Inc. and CNA Financial Corp. through December 31, 2023, which are described below.

LPP is powered by its proprietary technology that delivers speed, scalability and decision-making support for the automotive lenders. It supports the full transaction lifecycle, including credit application, underwriting, real-time insurance approval, settlement, servicing, invoicing of insurance premiums and fees, and advance data analytics of automotive lender's portfolio under the program. Through data derived at loan origination and the data collected by IAS, Open Lending has loan life performance data on each loan in its portfolio insured to date.

Open Lending's ecosystem of lenders and insurance carriers allows Open Lending to generate revenues with minimal customer acquisition, marketing and distribution costs, resulting in attractive unit economics and strong margins. When Open Lending signs a new automotive lender to LPP, the lender brings with them an aggregated customer base and access to an indirect auto lending dealer network.

Open Lending believes that it has a strong revenue model built upon repeat and growing usage by automotive lenders. Open Lending's profitability is strongly correlated with transaction volume. In addition, Open Lending collects an administrative fee on the total earned monthly insurance premium on the insurance policies IAS services. The insurance premium for Open Lending's insurers and its revenue streams are collected monthly by a surplus lines insurance broker, through automated clearing house transfers. Open Lending receives a profit share of the total monthly insurance underwriting profit earned by its insurers.

AmTrust Agreement

On October 22, 2013 Lenders Protection, LLC, a wholly-owned subsidiary of Open Lending ("Lenders Protection"), entered into a producer agreement (the "AmTrust Agreement"), as may be amended from time to time, with AmTrust North America, Inc. (“AmTrust”), through which Lenders Protection earns claims administration service fees and profit share revenue. Under the AmTrust Agreement, AmTrust facilitates the issuance of credit default insurance in connection with loans closed through the LPP. The AmTrust Agreement currently terminates on December 31, 2023, and thereafter automatically renews for two-year terms unless either party provides the other with written notice of termination at least 180 days prior to expiration. The AmTrust Agreement contains a non-competition provision in favor of Lenders Protection.

Under the AmTrust Agreement, early termination is permitted by either party at any time, upon mutual written consent; by either party upon a delivery of notice of termination in connection with certain specified bankruptcy events with respect to the other party; by AmTrust upon notice to Lenders Protection in the event that the surplus line broker fails to make payment to AmTrust; by either party upon 30 days’ written notice in the event of a material breach by the other party that is not cured; by either party immediately upon notice to the other due to any “problematic change of control” of the other party without prior written approval; by either party immediately if a governmental authority finds the AmTrust Agreement to be unenforceable; by Lenders Protection immediately in the event any carrier issuing policies fails to maintain an A.M Best rating of at least “A-”; by Lenders Protection if AmTrust breaches the non-competition commitment; and by Lenders Protection within 90 days if AmTrust provides the Lenders Protection notice of its intent to compete.

Neither party may assign the AmTrust Agreement or any of its rights or delegate any of its duties or obligations thereunder in any transaction that does not constitute a change of control, without the prior written consent of the other party.

A “change of control” is defined under the AmTrust Agreement as: the sale of all or substantially all the assets of either party; the issuance, sale, or transfer of equity interests of either party following which the equity holders that hold a majority of the economic and voting interests of either party cease to own a majority of the equity interests of such entity; or any dissolution, winding up, cessation of business or liquidation of either party other than in connection with an event of bankruptcy. The Business Combination did not qualify as a change of control under the AmTrust Agreement.

A “problematic change of control” is defined as any change of control wherein the acquirer engages in a directly competitive business with Lenders Protection or AmTrust; or the acquiring party maintains, or is generally regarded as maintaining, creditworthiness less than that maintained by the party being acquired.

CNA Agreement

On October 1, 2017 Lenders Protection entered into a producer agreement (the “CNA Agreement”), as may be amended from time to time, with Continental Casualty Company (“CNA”), through which Lenders Protection earns claims administration service fees and profit share revenue. Under the CNA Agreement, CNA facilitates the issuance of credit default insurance policies to financial institutions that enter into a program agreement with Lenders Protection for use of its proprietary software platform. The CNA Agreement terminates on December 31, 2023, and automatically renews for one-year terms unless either party provides the other with written notice of termination at least 180 days prior to expiration. The CNA Agreement contains non-competition provision in favor of Lenders Protection.

Under the CNA Agreement, early termination is permitted by either party at any time, upon mutual written consent; by either party upon a delivery of notice of termination in connection with certain specified bankruptcy events with respect to the other party; by CNA upon notice to Lenders Protection in the event that the surplus line broker fails to make payment to CNA; by either party upon 30 days’ written notice and cure-period in the event of a material breach by the other party; by either party immediately upon notice to the other due to any “problematic change of control” of the other party without prior written approval; by either party immediately if a governmental authority finds the CNA Agreement to be unenforceable; by Lenders Protection immediately in the event any carrier issuing policies fails to maintain an “A” or “A.M. Best” rating; by Lenders Protection if CNA breaches the non-competition commitment; by Lenders Protection if CNA provides notice to Lenders Protection of its intent to compete; and by either party for fraud or willful misconduct.

Neither party may assign the CNA Agreement or any of its rights or delegate any of its duties or obligations thereunder in any transaction that does not constitute a change of control, without the prior written consent of the other party.

A “change of control” is defined under the CNA Agreement as: the sale of all or substantially all the assets of either party; the issuance, sale, or transfer of equity interests of either party following which the equityholders that hold a majority of the economic and voting interests of either party cease to own a majority of the equity interests of such entity; or any dissolution, winding up, cessation of business or liquidation of either party other than in connection with an event of bankruptcy. The Business Combination did not qualify as a change of control under the CNA Agreement.

A “problematic change of control” is defined under the producer agreement as any change of control of Lenders Protection wherein the acquirer is an insurance company engaged in a directly competitive business of CNA.

Open Lending's Market Opportunity

Automotive loans for many near-prime and non-prime borrowers have been historically referred by the automotive lenders to third-party subprime financing companies. Open Lending's proprietary technology enables automotive lenders to assess the creditworthiness of borrowers and mitigate credit risk through Open Lending's unique insurance solution without losing the opportunity to such third-party finance companies. This helps Open Lending's automotive lenders maintain their consumer relationships instead of turning their clients over to third-parties.

The automotive industry is still seeking solutions to address the near-prime and non-prime borrower market. The near-prime and non-prime automotive loan market is a large, underserved sector with an approximate $14.4 billion revenue opportunity from an annual $250.0 billion underlying near-prime and non-prime auto loan market in the U.S. Open Lending is currently engaged with less than 1% of this market. Open Lending presents a compelling value proposition to the national network of OEM Captives, credit unions, banks and other automotive lenders by expanding the range of credit scores and loan-to-values where lenders can safely and profitably lend. Through the use of LPP, Open Lending believes it allows automotive lenders to increase application flow from near-prime and non-prime borrowers and help them broaden credit appetite with limited incremental risk. The insurance protection against default of these loans increases the ability for the automotive lenders to enter into these lending transactions with minimal additional risk. Additionally, Open Lending has solidified its channel partner relationships with fintech online lending partners, who source auto loan applications off the internet and offer refinance opportunities to near-prime and non-prime borrowers who have been mispriced by sub-prime auto lenders. Presently, Open Lending also has relationships with two OEM Captives, as described below.

OEM #1

On July 12, 2019, Lenders Protection entered into a Master Services Agreement (the "MSA") and a Program Agreement (the "Program Agreement," and together with the MSA, the "FinCo Agreement"), with an auto finance company ("Auto FinCo"), through which Lenders Protection provides Auto FinCo access to and use of the LPP in exchange for compensation. Under the FinCo Agreement, Auto FinCo uses the LPP to make credit available for purchases of motor vehicles by customers who do not qualify for financing under Auto FinCo's standard terms. The term of the Program Agreement continues until July 12, 2021, and automatically renews for one-year periods unless notice of non-renewal is given by either party to the other at least sixty days prior to the expiration date of the Program Agreement. Auto FinCo may terminate the MSA and/or the Program Agreement without cause upon one day prior written notice to Lenders Protection, and Lenders Protection may terminate the MSA and/or the Program Agreement without cause upon 180 days prior written notice to Auto FinCo. Either party may terminate the MSA and/or the Program Agreement for default as set forth in the MSA.

OEM #2

On October 1, 2019, Lenders Protection entered into an agreement with another auto finance company through which Lenders Protection provides access to and use of the LPP in exchange for program fees. Under the agreement, the auto finance company utilizes the LPP to make credit available to borrowers. The term of this agreement continues until all insured loans are no longer covered under the program insurance defined in the agreement. For purposes of any future originations, either party may terminate this agreement upon breach by the other party of any of the sections of the agreement. So long as the underlying loans remain outstanding, the agreement will remain in place with respect to those loans.

Key Product

Lenders Protection Program, Open Lending's flagship product, is an automotive lending program designed to underwrite default insurance on loans made to near-prime and non-prime borrowers. The program uses proprietary risk-based pricing models combined with loan default insurance provided by highly-rated third-party insurers. LPP links automotive lenders, LOS and insurance companies. LPP enables automotive lenders to assess the credit risk of a potential borrower within five seconds using data driven analysis, enabling the lender to generate an all-inclusive, insured, interest rate for a loan for the borrower.

The technology backing LPP is comprised of two primary elements. The first primary element is Open Lending's proprietary, multi-tenant software technology platform, which functions to fulfill the needs of all constituents in Open Lending's ecosystem. This software technology delivers underwriting results, loan-life reporting, consultative analyses and invoicing to Open Lending's automotive lenders. This technology also fulfills the invoicing, reporting and collection needs of Open Lending's insurers. Through electronic system integration, Open Lending's software technology connects Open Lending to all parties in its ecosystem. Open Lending believes that its ability to perform these tasks in various work streams electronically provides it with the ability to rapidly scale at minimum cost.

The second primary element of the LPP is its unique database that drives risk decisioning, with proprietary data accumulated in the last 20 years. At origination when a loan is insured, all attributes of the transaction are stored in the database. Through IAS, Open Lending ultimately gets loan life performance data on each insured loan. Having extremely granular origination and performance data allows Open Lending's data scientists and actuaries to constantly evolve and refine its risk models, based on actual experience and new third-party information sources. Open Lending's dataset is more comprehensive than automotive lenders data regarding near-prime and non-prime auto loans (e.g. our data points include higher loan advance rates in lower credit scores, older model used cars, higher mileage vehicles, longer loan terms with lower credit score and higher loan-to-value borrowers). This allows Open Lending's automotive lenders to make more loans to near-prime and non-prime borrowers that they might otherwise decline.

LPP risk models use a proprietary score in assessing and pricing risk on automotive loan applications. This proprietary score combines credit bureau data and alternative consumer data to more effectively assess risk and determine the appropriate insurance premium for any given loan application.

Open Lending is currently integrated with approximately twenty third-party LOS, allowing it to electronically accept, underwrite, price, and process loan applications and respond in real-time to the automotive lenders. Some of these third-party LOS also act as resellers for Open Lending, which lowers Open Lending's customer acquisition costs.

Open Lending's Ecosystem

Open Lending has built a robust ecosystem of automotive lenders, insurers and borrowers. LPP enables automotive lenders directly and borrowers indirectly to benefit from enhanced access to each other and to Open Lending's technology, resulting in increased loan generation and access to the automotive market for a larger population.

Value Proposition to Lenders and Dealers

Increased sales volume. LPP allows automotive lenders to add financing solutions and increase underwriting and credit protection solutions that we believe enable such automotive lenders to make more near-prime and non-prime loans with attractive risk return profiles. We believe LPP also allows dealers to sell more vehicles to near-prime and non-prime borrowers by enabling them to make loans to borrowers with additional risk profiles. LPP also helps automotive lenders and dealers make loans on additional vehicles, including financing on older model vehicles, higher mileage used vehicles and on after-market product sales. Used vehicle sales increased in the United States for five consecutive years from 2016 to 2020.

- *Ability to finance older model year vehicles.* LPP underwriting allows automotive lenders to advance loans on used vehicles up to nine model years old, compared to four to seven model years under traditional automotive loan models, helping expand the sales reach of dealers.
- *Ability to finance higher mileage vehicles.* Many automotive lenders limit mileage on eligible vehicles to 100,000 miles or less. LPP underwriting guidelines allow automotive lenders to underwrite loans for maximum mileage of 150,000 or less, enabling automotive lenders to finance the purchase of vehicles with higher mileage than is generally available in the market, expanding the sales reach of dealers.
- *Higher allowance for after-market product sales.* A material profit center for auto dealers is the profit on sale of after-market products such as Guaranteed Asset Protection insurance, or insurance covering the difference between the loan balance and insurance proceeds when a vehicle is damaged, vehicle warranties and extended service plans. Automotive lenders generally impose a maximum limit on the amount of after-market products that can be included in the loan balance. Based on Open Lending's experience with many automotive lenders, LPP maximum limit on after-market products that can be included in the loan balance is higher, allowing dealers the opportunity to make higher profits. If the automotive lender has a significant flow of direct to consumer auto loans, they also have the ability to sell these products and generate incremental fee income from higher after-market product sales.

Higher risk-adjusted return on assets. In an effort to manage risk, most automotive lenders concentrate their loan portfolios in super prime and prime auto loans. Automotive lenders' appetite for these loans results in a very efficient market where competition is expressed through interest rates. For automotive lenders that do not have size and scale, the result is a compressed return on assets on their super prime and prime loan portfolios. The near-prime and non-prime segment is much less efficient and consumer behavior is driven more by monthly loan payments than interest rates. Consequently, LPP attempts to enable automotive lenders to generate higher returns on assets and equity than traditional prime and super prime portfolios with a risk profile buttressed by credit protection from highly rated insurers. Additionally, many of the loans generated using LPP have already been processed and denied through the automotive lender's LOS. The automotive lenders already incur costs for processing such loans and LPP enables such lenders to convert the loss on a denied loan into an earning asset on its books.

Loss mitigation on near-prime and non-prime loans. Near-prime and non-prime auto loans carry more risk and higher losses than super prime and prime auto loans. The default insurance coverage offered to Open Lending's customers transfers the vast majority of the risk and increased losses to the insurers.

Higher loan advance rates. LPP may enable higher loan advances relative to vehicle value on auto loans. This allows automotive dealers and lenders to get internal approvals more often on requested loan structures instead of receiving counter-offers at lower loan advance rates.

Seamless integration. Open Lending designs its LPP to be easily integrated into the LOS of the financial institutions and existing automotive lenders to enable its customers to facilitate loans and sales using the LPP. This frictionless onboarding makes consumer point-of-sale financing available for dealers and automotive lenders of all sizes.

Enhanced borrower experience. Utilizing LPP, automotive lenders can serve more borrowers and meet a broader range of their financing needs.

Value Proposition to Insurers

Access to our proprietary technology and merchant network. Over the past two decades, Open Lending has built and refined its technology to deliver significant value to automotive lenders and dealers. Open Lending believes its insurer partners would require significant time and investment to build such a technology solution and lender network themselves.

No customer acquisition cost and limited operating expenses. LPP alleviates the need for its insurance carriers to bear any marketing, software development or technology infrastructure costs to insure loans. In addition, by providing claims administration services to the carriers, the insurers have far less administrative burden in servicing the policies.

Unique risk with significant underwriting profitability. Auto loan default coverage is a relatively unique line of insurance for insurers and, historically, Open Lending's insurers have experienced significant underwriting profitability.

Value Proposition for Borrowers

Lower interest rates. Given the costs and financial goals Open Lending's automotive lenders target and the specific risk posed by each loan, the goal of LPP is to find the lowest interest rate possible for the borrowers. LPP finds the appropriate risk-based interest rate for each loan application.

Lower payments. Near-prime and non-prime borrowers are more sensitive to monthly payment requirements than interest rates. By allowing longer loan terms, LPP may lead to lower monthly payments for consumers. By eliminating or reducing down payments and lower monthly payments, LPP lowers borrowing costs and gives borrowers more disposable income.

Reduction or elimination of loan down payments. Automotive lenders that use LPP typically have higher loan advance rates relative to vehicle value than most other automotive lenders that do not use LPP, which Open Lending believes eliminates or materially reduces the down payment required of borrowers.

Our Business Model

Open Lending generates revenue of approximately 5% of the balance on each loan originated. Revenue is comprised of fees paid by automotive lenders for the use of LPP to underwrite loans; fees paid by Open Lending's insurers for claim administration services; and, profit-sharing with insurers providing insurance protection to automotive lenders. Therefore, revenue is comprised of three streams: program fee, administration fee and insurance profit participation. The first two streams provide a fee-based revenue for the loans processed through LPP and the third stream is based on an underwriting profit share paid over the term of the loan. Nearly 70% of the expected revenue is collected by Open Lending in the first 12 months after loan origination, with the balance comprised of administration fees and underwriting profit share that are realized over the remaining life of the loan.

LPP fees vary as a percentage of the loan amount and average approximately $470 per loan, and are recognized upfront upon receipt of the loan by the consumer. The program fee is either paid in one single payment in the month following the month of certification of the loan or in equal monthly payments over the first 12 months following loan certification. Administration fees are collected for claims management performed by Open Lending's subsidiary, IAS. Administration fees are 3% of monthly insurance premium for as long as a loan remains outstanding. The administration fee is recognized monthly as received and decreases over time as the loan amortizes. The profit share represents Open Lending's participation in the underwriting profit of the Lenders Protection Program. Open Lending receives 72% of the aggregate monthly insurance underwriting profit on each insurer's portfolio, calculated as the monthly premium earned by the carrier less the carrier's expenses and incurred losses. The underwriting profit on each loan is earned or received over its life with the majority earned in the first twelve months of the loan.

Open Lending’s flagship product has been tested through various economic cycles, including the economic downturn in 2008, enabling highly accurate risk pricing and credit decision-making with minimized loss ratios. Open Lending's proprietary risk models have predicted the probability of default with greater than 99% accuracy for all loan applications submitted since 2010.

In addition, Open Lending has not historically had concentration risk in its client base, given that its lending clients are distributed across the country with Open Lending’s top 10 clients consistently accounting for approximately 30% of total program fees over the last three years. With the future certified loan volume Open Lending anticipates from OEM Captives, Open Lending does anticipate concentration risk for some period into the future. Open Lending expects to have significant concentration in its largest automotive lender relationships for the foreseeable future and anticipates that its business will experience significant concentration with OEM Captives throughout 2021.

Open Lending’s digital, success-based offering enables an efficient, low-cost distribution model and offers frictionless setup with minimal startup costs to automotive lenders. Open Lending sources credit unions and bank sales leads from a range of partners for new clients. Compensation to Open Lending’s distribution partners is based on a percentage of the program fees it actually collects and, therefore, is entirely success based. For the fiscal years ended December 31, 2020, 2019 and 2018, the aggregate compensation paid by Open Lending to its distribution partners was $3.0 million, $2.4 million and $1.4 million, respectively. Open Lending’s integration with many LOS systems, some of which also act as resellers, further helps drive client generation and recruitment at minimal additional costs. Open Lending focuses on lenders with over $100 million in automotive loan assets and Open Lending has more than tripled its client base since 2013.

Open Lending’s Partners

Open Lending’s lending partners include credit unions, regional banks, automotive OEM Captives and non-bank auto finance companies. Open Lending has additional partners that provide auto loan sourcing and loan fulfillment services to its automotive lenders. These companies obtain a substantial proportion of their auto purchase or auto refinance applications from internet-based auto selling, buying or consumer credit management sites. Open Lending is also in discussions with additional banks and OEM Captives, with which Open Lending may partner in the future. Open Lending currently partners with AmTrust and CNA as its two insurance carriers.

Competition

Competition for Open Lending occurs at two levels: (1) competition to sign and maintain automotive lenders; and (2) competition to fund near-prime and non-prime auto loans.

Competition to enroll and maintain automotive lenders. For LPP, which combines lending enablement, risk analytics, near-prime and non-prime auto loan performance data, real-time loan decisioning, risk-based pricing and auto loan default insurance, Open Lending does not believe there are any direct competitors. The credit bureaus provide customized risk models for underwriting and most LOS provide for custom underwriting rules and loan underwriting, while third-party lending-as-a-service companies provide turn-key LOS. Most automotive lenders have some minority portion of their auto loan portfolios in near-prime and non-prime loans, however, these near-prime and non-prime loans are generally at lower loan advance rates, shorter loan terms, limited to newer model years of vehicles and lower mileage maximums. A very limited number of national banks and sub-prime lenders underwrite and originate near-prime and non-prime loans with the characteristics of the LPP portfolio.

Competition to fund near-prime and non-prime auto loans. The near-prime and non-prime lending market is highly fragmented and competitive. Open Lending faces competition from a diverse landscape of consumer lenders, including traditional banks and credit unions, as well as alternative technology-enabled lenders like LendingClub Corporation, Square, Inc., Social Finance, Inc., Avant, LLC, Prosper Funding LLC and Credit Acceptance Corporation, among others. Many of Open Lending’s competitors are (or are affiliated with) financial institutions with the capacity to hold loans on their balance sheets. These would include money center banks, super-regional banks, regional banks, OEM Captives, finance companies and sub-prime lenders. Some of these competitors offer a broader suite of products and services than Open Lending does, including retail banking solutions, credit and debit cards and loyalty programs.

Government Regulation

Open Lending operates in a heavily regulated industry that is highly focused on consumer protection. Statutes, regulations and practices that have been in place for many years may be changed, and new laws have been, and may continue to be, introduced to address real and perceived problems in the financial services industry in general and automotive lending in particular. These laws and how they are interpreted continue to evolve.

The regulatory framework to which Open Lending is subject includes U.S. federal, state and local laws, regulations and rules. U.S. federal, state and local governmental authorities, including state financial services and insurance agencies, have broad oversight and supervisory authority over Open Lending's business. Federal and state agencies also have broad enforcement powers over Open Lending, including powers to investigate Open Lending's business practices and broad discretion to deem particular practices unfair, deceptive, abusive or otherwise not in accordance with the law.

Open Lending's business requires compliance with several regulatory regimes, including some applicable to consumer lending. In particular, the laws which Open Lending may be subject to directly or indirectly include:

- state laws and regulations that impose requirements related to loan disclosures and terms, credit discrimination, and unfair or deceptive business practices;
- the Truth-in-Lending Act, and its implementing Regulation Z, and similar state laws, which require certain disclosures to borrowers regarding the terms and conditions of their loans and credit transactions;
- Section 5 of the Federal Trade Commission Act, which prohibits unfair and deceptive acts or practices in or affecting commerce, and Section 1031 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), which prohibits unfair, deceptive, or abusive acts or practices ("UDAAP"), in connection with any consumer financial product or service;
- the Equal Credit Opportunity Act, and its implementing Regulation B, which prohibit creditors from discriminating against credit applicants on the basis of race, color, sex, age, religion, national origin, marital status, the fact that all or part of the applicant's income derives from any public assistance program or the fact that the applicant has in good faith exercised any right under the Federal Consumer Credit Protection Act or any applicable state law;
- the Fair Credit Reporting Act ("FCRA"), and its implementing Regulation V, as amended by the Fair and Accurate Credit Transactions Act, which promotes the accuracy, fairness and privacy of information in the files of consumer reporting agencies;
- the Fair Debt Collection Practices Act ("FDCPA"), and its implementing Regulation F, the Telephone Consumer Protection Act, as well as state debt collection laws, all of which provide guidelines and limitations concerning the conduct of debt collectors in connection with the collection of consumer debts;
- the Bankruptcy Code, which limits the extent to which creditors may seek to enforce debts against parties who have filed for bankruptcy protection;
- the Gramm-Leach-Bliley Act ("GLBA"), and the California Consumer Protection Act, which include limitations on the disclosure of nonpublic personal information by financial institutions about a consumer to nonaffiliated third parties, in certain circumstances requires financial institutions to limit the use and further disclosure of nonpublic personal information by nonaffiliated third parties to whom they disclose such information and requires financial institutions to disclose certain privacy policies and practices with respect to information sharing with affiliated and nonaffiliated entities as well as to safeguard personal customer information, and other privacy laws and regulations;
- the rules and regulations promulgated by the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the National Credit Union Administration, as well as state banking regulators;
- the Servicemembers Civil Relief Act, which allows active duty military members to suspend or postpone certain civil obligations so that the military member can devote his or her full attention to military duties;
- the Electronic Fund Transfer Act, and Regulation E promulgated thereunder, which provide disclosure requirements, guidelines and restrictions on the electronic transfer of funds from consumers' bank accounts;
- the Electronic Signatures in Global and National Commerce Act, and similar state laws, particularly the Uniform Electronic Transactions Act, which authorize the creation of legally binding and enforceable agreements utilizing electronic records and signatures; and

- the Bank Secrecy Act, which relates to compliance with anti-money laundering, customer due diligence and record-keeping policies and procedures.

Open Lending is also subject to state insurance, insurance brokering, insurance agency regulations, third-party administration company statutes and similar statutes.

The number and complexity of these laws, and vagaries in their interpretations, present compliance and litigation risks from inadvertent error and omissions which Open Lending may not be able to eliminate from its operation or activities. The laws, regulations and rules described above are subject to legislative, administrative and judicial interpretation, and some of these laws and regulations have been infrequently interpreted or only recently enacted. Infrequent interpretations of these laws and regulations or an insignificant number of interpretations of recently-enacted laws and regulations can result in ambiguity with respect to permitted conduct under these laws and regulations. Any ambiguity under the laws and regulations to which Open Lending is subject may lead to regulatory investigations or enforcement actions and private causes of action, such as class-action lawsuits, with respect to Open Lending's compliance with applicable laws and regulations.

Certain states have adopted laws regulating and requiring licensing by parties that engage in certain activity regarding consumer finance and insurance transactions, including facilitating and assisting such transactions in certain circumstances. Furthermore, certain states and localities have also adopted laws requiring licensing for consumer debt collection or servicing. Open Lending must comply with state licensing requirements to conduct its business. LPP is licensed as a property and casualty insurance agency and regulated by the insurance regulator in each state in which Open Lending operates. All Lenders Protection sales personnel are individually licensed as property and casualty insurance agents in each state in which they operate. In those states where it is required, IAS is licensed as a third-party administration agent and is regulated by the insurance regulator in each state in which Open Lending operates.

Open Lending is also supervised by regulatory agencies under U.S. law. From time to time, Open Lending may receive examination requests that require Open Lending to provide records, documents and information relating to its business operations. State attorneys general, state licensing regulators, and state and local consumer protection offices have authority to investigate consumer complaints and to commence investigations and other formal and informal proceedings regarding Open Lending's operations and activities.

Employees and Human Capital Resources

As of December 31, 2020, Open Lending employed approximately 104 employees, with substantially all located in Texas. None of Open Lending's employees is currently represented by a labor union or has terms of employment that are subject to a collective bargaining agreement. Open Lending considers its relationships with its employees to be good and has not experienced any work stoppages.

We encourage and support the growth and development of our employees. Continual learning and career development is advanced through ongoing performance and development conversations with employees, internally developed training programs, customized corporate training engagements and educational reimbursement programs.

The safety, health and wellness of our employees is a top priority. The COVID-19 pandemic presented a unique challenge with regard to maintaining employee safety while continuing successful operations. Through teamwork and the adaptability of our management and staff, we were able to transition, over a short period of time, approximately 95% of our employees to effectively working from remote locations and ensure a safely-distanced working environment for employees performing customer facing activities at branches and operations centers. All employees are asked to not come to work when they experience signs or symptoms of a possible COVID-19 illness and have been provided additional paid time off to cover compensation during such absences. On an ongoing basis, we further promote the health and wellness of our employees by strongly encouraging work-life balance, offering flexible work schedules, reimbursing certain child care costs, keeping the employee portion of health care premiums to a minimum and sponsoring various wellness programs.

Available Information

Our website address is www.openlending.com. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available through the investor relations page of our website free of charge as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission ("SEC"). Our website and the information contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K.

Item 1A. *Risk Factors*

A description of the material and other risks and uncertainties associated with our business and industry is set forth below. You should carefully consider the risks and uncertainties described below, together with all of the other information in this Annual Report on Form 10-K, including our audited consolidated financial statements and notes thereto and the "Management's discussion and analysis of financial condition and results of operations" section of this Annual Report on Form 10-K before deciding whether to purchase shares of our common stock. If any of the following risks are realized, our business, financial condition, operating results and prospects could be materially and adversely affected. In that event, the price of our common stock could decline, perhaps significantly. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operation.

Risks Related to Our Business

Our results of operations and continued growth depend on our ability to retain existing, and attract new, automotive lenders.

A substantial majority of Open Lending's total revenue is generated from the transaction fees that it receives from its automotive lenders and the profit share that it receives from its insurance company partners in connection with loans made by automotive lenders to the owners or purchasers of used and new automobiles (the "Consumers") using the LPP. Approximately 5% of the average loan balance on each loan originated is collected by Open Lending as revenue in transaction fees, profit-sharing with insurance companies and administrative fees for claims administration services provided to the insurance companies. If automotive lenders cease to use LPP to make loans, Open Lending will fail to generate future revenues. To attract and retain automotive lenders, Open Lending markets LPP to automotive lenders on the basis of a number of factors, including loan analytics, risk-based pricing, risk modeling and automated decision-technology, as well as integration, customer service, brand and reputation. Automotive lenders are able to leverage the geographic diversity of the loans they can originate through LPP with the simplicity of Open Lending's five-second all-inclusive loan offer generation. Automotive lenders, however, have alternative sources for internal loan generation, and they could elect to originate loans through those alternatives rather than through LPP. There is significant competition for existing automotive lenders. If Open Lending fails to retain any automotive lenders, and does not enroll new automotive lenders of similar size and profitability, it will have a material adverse effect on Open Lending's business and future growth. There has been some turnover in automotive lenders, as well as varying activation rates and volatility in usage of the Open Lending platform by automotive lenders, and this may continue or even increase in the future. Agreements with automotive lenders are cancellable on thirty days' notice and do not require any minimum monthly level of application submissions. If a significant number of existing automotive lenders were to use other competing platforms, thereby reducing their use of LPP, it would have a material adverse effect on Open Lending's business and results of operations.

A large percentage of revenue for Open Lending is concentrated with Open Lending's top ten automotive lenders, and the loss of one or more significant automotive lenders could have a negative impact on operating results.

Open Lending's top ten automotive lenders (including certain groups of affiliated automotive lenders) accounted for 30% of the total program fee revenue over the past three years. Open Lending expects to have significant concentration in Open Lending's largest automotive lender relationships for the foreseeable future. In the event that one or more of Open Lending's significant automotive lenders, or groups of automotive lenders terminate their relationships with Open Lending, the number of loans originated through LPP would decline, which would materially adversely affect Open Lending's business and, in turn, Open Lending's revenue.

In 2021, Open Lending anticipates that its business will experience significant concentration as OEM Captives fully ramp and deploy LPP nationally across all of their new and used vehicle channels. The size and loan volume of OEM Captives is materially higher than any of Open Lending's automotive lenders, which Open Lending believes will result in a high concentration of revenue being derived from a limited number of OEM Captives. As a result, if Open Lending were to lose an OEM Captive as one of its customers, or if an existing or anticipated OEM Captive customer were to delay its adoption or deployment of the LPP, this may have a material adverse effect on Open Lending's future revenues.

Open Lending's results depend, to a significant extent, on the active and effective adoption of the LPP by automotive lenders.

Open Lending's success depends on the active and effective adoption of the LPP by automotive lenders in originating loans to near-prime and non-prime borrowers. Open Lending relies on automotive lenders to utilize LPP within their loan origination systems. Although automotive lenders generally are under no obligation to use LPP in generating their loans, the integrated loan and insurance offering by LPP encourages the use of LPP by automotive lenders. Any adverse accounting determinations concerning loans generated by automotive lenders using the LPP could negatively affect further adoption of the LPP. The failure by automotive lenders to effectively adopt LPP would have a material adverse effect on the rate at which they can lend to near-prime and non-prime borrowers and in turn, would have a material adverse effect on Open Lending's business, revenues and financial condition.

Open Lending has partnered with two major insurance carriers that underwrite and insure the loans generated using the LPP.

Open Lending relies on AmTrust and CNA to insure the loans generated by the automotive lenders using LPP. Open Lending has entered into separate producer and claims service agreements with each of these carriers. The producer and claims service agreements with both insurance carriers generally contain customary termination provisions that allow them to terminate the agreement upon written notice after the occurrence of certain events including, among other things, breach of the producer agreement; changes in regulatory requirements making the agreement unenforceable; or for convenience. If either of these insurance carriers were to terminate their agreements with Open Lending and Open Lending is unable to replace the commitments of the terminating insurance carriers, it would have a material adverse effect on Open Lending's business, operations and financial condition.

Open Lending' financial condition and results of operations may be adversely affected by the impact of the global outbreak of the coronavirus.

In March 2020, the World Health Organization declared the novel coronavirus and resulting COVID-19 disease ("COVID-19") a global pandemic. This contagious disease outbreak, which has continued to spread, and the related adverse public health developments, including orders to shelter-in-place, travel restrictions, and mandated business closures, have adversely affected workforces, organizations, customers, economies, and financial markets globally. In light of the uncertain and rapidly evolving situation relating to the spread of COVID-19, we have taken precautionary measures, including imposing travel restrictions for our employees, mandating a global work from home policy, and shifting customer events to virtual-only experiences. Although we continue to monitor the situation and may adjust our current policies as more information and public health guidance become available, precautionary measures that have been adopted could negatively affect our customer success efforts, customer retention, sales and marketing efforts, delay and lengthen our sales cycles, affect our revenue growth rate, or create operational or other challenges, any of which could harm our business and results of operations.

Additionally, the impact of the COVID-19 pandemic has caused and is likely to continue to cause substantial changes in consumer behavior and has caused restrictions on business and individual activities, which have led to and are likely to continue to lead to reduced economic activity. Extraordinary actions taken by international, federal, state, and local public health and governmental authorities to contain and combat the outbreak and spread of COVID-19 in regions throughout the world, including travel bans, quarantines, "stay-at-home" orders, and similar mandates for many individuals and businesses to substantially restrict daily activities could continue to have an adverse effect on Open Lending's financial condition and results of operations.

The economic slowdown attributable to the COVID-19 pandemic has led to a global decrease in vehicle sales in markets around the world. Any sustained decline in vehicle sales would have a substantial adverse effect on Open Lending's financial condition, results of operations, and cash flow. Moreover, as a result of the restrictions described above and consumers' reaction to the COVID-19 pandemic in general, showroom traffic at car dealers has dropped significantly and many dealers have temporarily ceased operations, thereby reducing the demand for Open Lending's products and leading dealers to purchase fewer vehicles. In the event there are extended closures of businesses, furloughs or the suspension of employees from businesses or other developments that reduce the earnings of workers, these developments may negatively impact the ability of consumers to pay their automotive loans, which may lead to higher loan defaults and increased losses for Open Lending's insurance company partners. Increased losses would result in lower profit share earnings on Open Lending's existing insured loan portfolio.

The extent and duration of the economic slowdown attributable to the COVID-19 pandemic remains uncertain at this time. A continued significant economic slowdown could have a substantial adverse effect on our financial condition, liquidity, and results of operations. If these conditions persist for an extended term, it could have a material adverse effect on Open Lending's future revenue and net income.

Open Lending has experienced rapid growth, which may be difficult to sustain and which may place significant demands on its operational, administrative and financial resources.

Open Lending's revenue growth has caused significant demands on its operational, marketing, compliance and accounting infrastructure, and has resulted in increased expenses, which Open Lending expects to continue as it grows. In addition, Open Lending is required to continuously develop and adapt its systems and infrastructure in response to the increasing sophistication of the consumer finance market and regulatory developments relating to existing and projected business activities and those of automotive lenders. Open Lending's future growth will depend, among other things, on its ability to maintain an operating platform and management system sufficient to address growth and will require Open Lending to incur significant additional expenses and to commit additional senior management and operational resources.

As a result of Open Lending's growth, we face significant challenges in:

- securing commitments from existing and new automotive lenders to provide loans to consumers;
- maintaining existing and developing new relationships with additional automotive lenders;
- maintaining adequate financial, business and risk controls;
- training, managing and appropriately sizing workforce and other components of business on a timely and cost-effective basis;
- navigating complex and evolving regulatory and competitive environments;
- increasing the number of borrowers in, and the volume of loans facilitated through, the LPP;
- entering into new markets and introducing new solutions;
- continuing to revise proprietary credit decisioning and scoring models;
- continuing to develop, maintain and scale platform;
- effectively using limited personnel and technology resources;
- maintaining the security of platform and the confidentiality of the information (including personally identifiable information) provided and utilized across platform; and
- attracting, integrating and retaining an appropriate number of qualified employees.

Open Lending may not be able to manage expanding operations effectively, and any failure to do so could adversely affect the ability to generate revenue and control expenses.

If Open Lending experiences negative publicity, it may lose the confidence of automotive lenders and insurance carriers who use or partner with the LPP and Open Lending's business may suffer.

Reputational risk, or the risk to negative publicity or public opinion, is inherent to Open Lending's business. Recently, consumer financial services companies have experienced increased reputational harm as consumers and regulators take issue with certain of their practices and judgments, including, for example, fair lending, credit reporting accuracy, lending to members of the military, state licensing (for lenders, servicers and money transmitters) and debt collection. Given that Open Lending's primary clients are automotive lenders in the customer financial services space, any reputational risk associated with clients is in turn attributable to Open Lending. Maintaining a positive reputation is critical to Open Lending's ability to attract and retain existing and new automotive lenders, insurance carriers, investors and employees. Negative public opinion can arise from many sources, including actual or alleged misconduct, errors or improper business practices by employees, automotive lenders, insurance carriers, automobile dealers, outsourced service providers or other counterparties; litigation or regulatory actions; failure by Open Lending, automotive lenders, or automobile dealers to meet minimum standards of service and quality; inadequate protection of consumer information; failure of automotive lenders to adhere to the terms of their LPP agreements or other contractual arrangements or standards; failure of insurance carriers and Open Lending's subsidiary, Insurance Administrative Services LLC, to satisfactorily administer claims; compliance failures; and media coverage, whether accurate or not. Negative public opinion can diminish the value of the Open Lending brand and adversely affect Open Lending's ability to attract and retain automotive lenders and insurance carriers as a result of which Open Lending's results of operations may be materially harmed and it could be exposed to litigation and regulatory action.

Privacy concerns or security breaches relating to the LPP could result in economic loss, damage Open Lending's reputation, deter users from using Open Lending products, and expose Open Lending to legal penalties and liability.

Through the use of LPP, Open Lending gathers and stores personally identifiable information on Consumers such as social security numbers, names and addresses. A cybersecurity breach where this information was stolen or made public would result in negative publicity and additional costs to mitigate the damage to customers. While Open Lending has taken reasonable steps to protect such data, techniques used to gain unauthorized access to data and systems, disable or degrade service, or sabotage systems, are constantly evolving, and Open Lending may be unable to anticipate such techniques or implement adequate preventative measures to avoid unauthorized access or other adverse impacts to such data or Open Lending systems.

The LPP is vulnerable to software bugs, computer viruses, internet worms, break-ins, phishing attacks, attempts to overload servers with denial-of-service, or other attacks or similar disruptions, any of which could lead to system interruptions, delays, or shutdowns, causing loss of critical data or the unauthorized access of data. Computer malware, viruses, and computer hacking and phishing attacks have become more prevalent in Open Lending's industry. Functions that facilitate interactivity with other internet platforms could increase the scope of access of hackers to user accounts. Though it is difficult to determine what, if any, harm may directly result from any specific interruption or attack, any failure to maintain performance, reliability, security and availability of Open Lending products to the satisfaction of Open Lending's clients and their consumers may harm Open Lending's reputation and Open Lending's ability to retain existing clients. Although Open Lending has in place systems and processes that are designed to protect data, prevent data loss, disable undesirable accounts and activities and prevent or detect security breaches, Open Lending cannot assure you that such measures will provide absolute security. If an actual or perceived breach of security occurs to Open Lending's systems or a third party's systems, Open Lending could also be required to expend significant resources to mitigate the breach of security and to address matters related to any such breach, including notifying users or regulators.

Changes in market interest rates could have an adverse effect on Open Lending's business.

The fixed interest rates charged on the loans that automotive lenders originate are calculated based upon market benchmarks at the time of origination. Increases in the market benchmark would result in increases in the interest rates on new loans. Increased interest rates may adversely impact the spending levels of Consumers and their ability and willingness to borrow money. Higher interest rates often lead to higher rates charged to the Consumer, which could negatively impact the ability of automotive lenders to generate volume and in turn, Open Lending's ability to generate revenues on loans originated using the LPP. Higher interest rates may also increase the payment obligations of Consumers, which may reduce the ability of Consumers to remain current on their obligations to automotive lenders and, therefore, lead to increased delinquencies, defaults, Consumer bankruptcies and charge-offs, and decreasing recoveries, all of which could have an adverse effect on Open Lending's business.

The loss of the services of Open Lending's senior management could adversely affect Open Lending's business.

The experience of Open Lending's senior management is a valuable asset to Open Lending. Open Lending's management team has significant experience in the consumer loan business, is responsible for many of Open Lending's core competencies and would be difficult to replace. Competition for senior executives in consumer lending industry is intense, and Open Lending may not be able to attract and retain qualified personnel to replace or succeed members of Open Lending's senior management team or other key personnel. Failure to retain talented senior leadership could have a material adverse effect on Open Lending's business.

Open Lending's projections are subject to significant risks, assumptions, estimates and uncertainties. As a result, Open Lending's projected revenues, market share, expenses and profitability may differ materially from our expectations.

Open Lending operates in a rapidly changing and competitive industry and Open Lending's projections will be subject to the risks and assumptions made by management with respect to its industry. Operating results are difficult to forecast because they generally depend on a number of factors, including the competition Open Lending faces, its ability to attract and retain automotive lenders, the active and effective adoption of the LPP by automotive lenders in originating loans to near-prime and non-prime borrowers, Open Lending's profit share assumptions and general industry trends. Additionally, as described herein, Open Lending's revenue is impacted, to a significant extent, by the general economy and the financial performance of automotive lenders. Open Lending's business may be affected by reductions in consumer spending from time to time as a result of a number of factors which may be difficult to predict. This may result in decreased revenue levels, and Open Lending may be unable to adopt measures in a timely manner to compensate for any unexpected shortfall in income. This inability could cause Open Lending's operating results in a given quarter to be higher or lower than expected. If actual results differ from Open Lending's estimates, analysts may negatively react and our stock price could be materially impacted.

Open Lending's vendor relationships subject Open Lending to a variety of risks, and the failure of third parties to comply with legal or regulatory requirements or to provide various services that are important to Open Lending's operations could have an adverse effect on its business.

Open Lending has significant vendors that, among other things, provide Open Lending with financial, technology, insurance and other services to support its loan protection services, including access to credit reports and information. Under various legal theories and contractual requirements, companies may be held responsible for the actions of their subcontractors. Accordingly, Open Lending could be adversely impacted to the extent that Open Lending's vendors fail to comply with the legal requirements applicable to the particular products or services being offered.

In some cases, third-party vendors, including resellers and aggregators, are the sole source, or one of a limited number of sources, of the services they provide to Open Lending. Certain of Open Lending's vendor agreements are terminable on little or no notice, and if current vendors were to stop providing services to Open Lending on acceptable terms, Open Lending may be unable to procure alternatives from other vendors in a timely and efficient manner and on acceptable terms (or at all). For example, Open Lending currently utilizes a single vendor to provide all consumer credit reports that insurance carriers use for insurance underwriting. If this vendor were to stop providing consumer credit report services to Open Lending on acceptable terms, Open Lending would need to procure alternative consumer credit reporting services from another third-party provider in a timely and efficient manner and on acceptable terms. If any third-party vendor fails to provide the services Open Lending requires, fails to meet contractual requirements (including compliance with applicable laws and regulations), fails to maintain adequate data privacy and electronic security systems, or suffers a cyber-attack or other security breach, Open Lending could be subject to regulatory enforcement actions and suffer economic and reputational harm that could have a material adverse effect on Open Lending's business. Further, Open Lending may incur significant costs to resolve any such disruptions in service, which could adversely affect Open Lending's business.

Litigation, regulatory actions and compliance issues could subject Open Lending to significant fines, penalties, judgments, remediation costs and/or requirements resulting in increased expenses.

Open Lending's business is subject to increased risks of litigation and regulatory actions as a result of a number of factors and from various sources, including as a result of the highly regulated nature of the financial services industry, insurance carriers and the focus of state and federal enforcement agencies on the financial services industry and insurance carriers.

From time to time, Open Lending is also involved in, or the subject of, reviews, requests for information, investigations and proceedings (both formal and informal) by state and federal governmental agencies, including insurance regulators and the Department of Insurance of many states, regarding Open Lending's business activities and Open Lending's qualifications to conduct its business in certain jurisdictions, which could subject Open Lending to significant fines, penalties, obligations to change its business practices and other requirements resulting in increased expenses and diminished earnings. Open Lending's involvement in any such matter could also cause significant harm to its reputation and divert management attention from the operation of its business, even if the matters are ultimately determined in Open Lending's favor. Moreover, any settlement, or any consent order or adverse judgment in connection with any formal or informal proceeding or investigation by a government agency, may prompt litigation or additional investigations or proceedings as other litigants or other government agencies begin independent reviews of the same activities.

In addition, a number of participants in the consumer finance industry have been the subject of putative class action lawsuits; state attorney general actions and other state regulatory actions; federal regulatory enforcement actions, including actions relating to alleged unfair, deceptive or abusive acts or practices; violations of state licensing and lending laws, including state usury laws; actions alleging discrimination on the basis of race, ethnicity, gender or other prohibited bases; and allegations of noncompliance with various state and federal laws and regulations relating to originating and servicing consumer finance loans. The current regulatory environment, increased regulatory compliance efforts and enhanced regulatory enforcement have resulted in significant operational and compliance costs and may prevent Open Lending from providing certain products and services. There is no assurance that these regulatory matters or other factors will not, in the future, affect how Open Lending conducts its business and, in turn, have a material adverse effect on its business. In particular, legal proceedings brought under state consumer protection statutes or under several of the various federal consumer financial services statutes may result in a separate fine for each violation of the statute, which, particularly in the case of class action lawsuits, could result in damages substantially in excess of the amounts Open Lending earned from the underlying activities. Similar risks exist for insurance producing and claims administration services, which are highly regulated.

In addition, from time to time, through Open Lending's operational and compliance controls, Open Lending identifies compliance issues that require it to make operational changes and, depending on the nature of the issue, result in financial remediation to impacted customers. These self-identified issues and voluntary remediation payments could be significant, depending on the issue and the number of customers impacted, and also could generate litigation or regulatory investigations that subject Open Lending to additional risk.

Fraudulent activity could negatively impact the Open Lending business and could cause automotive lenders to be less willing to originate loans or insurance carriers to be less willing to underwrite policies as part of the Lenders Protection Program.

Fraud is prevalent in the financial services industry and is likely to increase as perpetrators become more sophisticated. Open Lending is subject to the risk of fraudulent activity with respect to the underwriting policies of insurance carriers, automotive lenders, their customers and third parties handling customer information. Open Lending's resources, technologies and fraud prevention tools may be insufficient to accurately detect and prevent fraud. The level of Open Lending's fraud charge-offs could increase and results of operations could be materially adversely affected if fraudulent activity were to significantly increase. High profile fraudulent activity also could negatively impact the Open Lending brand and reputation, which could negatively impact the use of Open Lending's services and products. In addition, significant increases in fraudulent activity could lead to regulatory intervention, which could increase Open Lending's costs and also negatively impact its business.

Cyber-attacks and other security breaches could have an adverse effect on Open Lending's business.

In the normal course of Open Lending's business, Open Lending collects, processes and retains sensitive and confidential information regarding automotive lenders, insurance carriers and Consumers. Open Lending also has arrangements in place with certain third-party service providers that require Open Lending to share Consumer information. Although Open Lending devotes significant resources and management focus to ensuring the integrity of its systems through information security and business continuity programs, the Open Lending facilities and systems, and those of automotive lenders, insurance carriers and third-party service providers, are vulnerable to external or internal security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming or human errors, and other similar events. Open Lending, automotive lenders, insurance carriers and third-party service providers have experienced all of these events in the past and expect to continue to experience them in the future. Open Lending also faces security threats from malicious third parties that could obtain unauthorized access to Open Lending systems and networks, which threats it anticipates will continue to grow in scope and complexity over time. These events could interrupt the Open Lending business or operations, result in significant legal and financial exposure, supervisory liability, damage to its reputation and a loss of confidence in the security of Open Lending's systems, products and services. Although the impact to date from these events has not had a material adverse effect on Open Lending, no assurance is given that this will be the case in the future.

Information security risks in the financial services industry have increased recently, in part because of new technologies, the use of the internet and telecommunications technologies (including mobile devices) to conduct financial and other business transactions and the increased sophistication and activities of organized criminals, perpetrators of fraud, hackers, terrorists and others. In addition to cyber-attacks and other security breaches involving the theft of sensitive and confidential information, hackers recently have engaged in attacks that are designed to disrupt key business services, such as consumer-facing websites. Open Lending and automotive lenders may not be able to anticipate or implement effective preventive measures against all security breaches of these types, especially because the techniques used change frequently and because attacks can originate from a wide variety of sources. Open Lending employs detection and response mechanisms designed to contain and mitigate security incidents. Nonetheless, early detection efforts may be thwarted by sophisticated attacks and malware designed to avoid detection. Open Lending also may fail to detect the existence of a security breach related to the information of automotive lenders, insurance carriers and Consumers that Open Lending retains as part of its business and may be unable to prevent unauthorized access to that information.

Open Lending also faces risks related to cyber-attacks and other security breaches that typically involve the transmission of sensitive information regarding borrowers through various third parties, including automotive lenders, insurance carriers and data processors. Some of these parties have in the past been the target of security breaches and cyber-attacks. Because Open Lending does not control these third parties or oversee the security of their systems, future security breaches or cyber-attacks affecting any of these third parties could impact Open Lending through no fault of its own, and in some cases Open Lending may have exposure and suffer losses for breaches or attacks relating to them. While Open Lending regularly conducts security assessments of significant third-party service providers, no assurance is given that Open Lending's third-party information security protocols are sufficient to withstand a cyber-attack or other security breach.

The access by unauthorized persons to, or the improper disclosure by Open Lending of, confidential information regarding LPP customers or Open Lending's proprietary information, software, methodologies and business secrets could interrupt the Open Lending business or operations, result in significant legal and financial exposure, supervisory liability, damage to its reputation or a loss of confidence in the security of Open Lending's systems, products and services, all of which could have a material adverse impact on Open Lending's business. In addition, there recently have been a number of well-publicized attacks or breaches affecting companies in the financial services industry that have heightened concern by consumers, which could also intensify regulatory focus, cause users to lose trust in the security of the industry in general and result in reduced use of Open Lending services and increased costs, all of which could also have a material adverse effect on the Open Lending business.

Disruptions in the operation of Open Lending's computer systems and third-party data centers could have an adverse effect on the Open Lending business.

Open Lending's ability to deliver products and services to automotive lenders, service loans made by automotive lenders and otherwise operate Open Lending's business and comply with applicable laws depends on the efficient and uninterrupted operation of the Open Lending computer systems and third-party data centers, as well as those of automotive lenders and third-party service providers.

These computer systems and third-party data centers may encounter service interruptions at any time due to system or software failure, natural disasters, severe weather conditions, health pandemics, terrorist attacks, cyber-attacks or other events. Any such catastrophes could have a negative effect on the Open Lending business and technology infrastructure (including its computer network systems), on automotive lenders and insurance carriers and on Consumers. Catastrophic events also could prevent or make it more difficult for Consumers to travel to automobile dealers' locations to shop, thereby negatively impacting Consumer spending in the affected regions (or in severe cases, nationally), and could interrupt or disable local or national communications networks, including the payment systems network, which could prevent Consumers from making purchases or payments (temporarily or over an extended period). These events also could impair the ability of third parties to provide critical services to Open Lending. All of these adverse effects of catastrophic events could result in a decrease in the use of Open Lending's solution and payments to Open Lending, which could have a material adverse effect on the Open Lending business.

In addition, the implementation of technology changes and upgrades to maintain current and integrate new systems may cause service interruptions, transaction processing errors or system conversion delays and may cause Open Lending to fail to comply with applicable laws, all of which could have a material adverse effect on the Open Lending business. Open Lending expects that new technologies and business processes applicable to the consumer financial services industry will continue to emerge and that these new technologies and business processes may be better than those Open Lending currently uses. There is no assurance that Open Lending will be able to successfully adopt new technology as critical systems and applications become obsolete and better ones become available. A failure to maintain and/or improve current technology and business processes could cause disruptions in Open Lending's operations or cause its solution to be less competitive, all of which could have a material adverse effect on its business.

If the underwriting models Open Lending uses contain errors or are otherwise ineffective, Open Lending's reputation and relationships with automotive lenders and insurance carriers could be harmed.

Open Lending's ability to attract automotive lenders to LPP is significantly dependent on Open Lending's ability to effectively evaluate a Consumer's credit profile and likelihood of default and potential loss in accordance with automotive lenders' and insurance carriers' underwriting policies. Open Lending's business depends significantly on the accuracy and success of its underwriting model. To conduct this evaluation, Open Lending uses proprietary credit decisioning and scoring models. If any of the credit decisioning and scoring models Open Lending uses contains programming or other errors, is ineffective or the data provided by Consumers or third parties is incorrect or stale, or if Open Lending is unable to obtain accurate data from Consumers or third parties (such as credit reporting agencies), the Open Lending loan pricing and approval process could be negatively affected, resulting in mispriced or misclassified loans or incorrect approvals or denials of loans. This could damage Open Lending's reputation and relationships with automotive lenders and insurance carriers, which could have a material adverse effect on the Open Lending business.

Open Lending depends on the accuracy and completeness of information about Consumers, and any misrepresented information could adversely affect Open Lending's business.

In evaluating loan applicants, Open Lending relies on information furnished to Open Lending by or on behalf of Consumers, including credit, identification, employment and other relevant information. Some of the information regarding Consumers provided to Open Lending is used in its proprietary credit decisioning and scoring models, which Open Lending uses to determine whether an application meets the applicable underwriting criteria. Open Lending relies on the accuracy and completeness of that information.

Not all Consumer information is independently verified. As a result, Open Lending relies on the accuracy and completeness of the information provided by Consumers or indirectly by automotive lenders. If any of the information that is considered in the loan review process is inaccurate, whether intentional or not, and such inaccuracy is not detected prior to loan funding, the loan may have a greater risk of default than expected. Additionally, there is a risk that, following the date of the credit report that Open Lending obtains and reviews, a Consumer may have defaulted on, or become delinquent in the payment of, a pre-existing debt obligation, taken on additional debt, lost his or her job or other sources of income, or experienced other adverse financial events. Any significant increase in inaccuracies or resulting increases in losses would adversely affect Open Lending's business.

Open Lending relies extensively on models in managing many aspects of Open Lending business. Any inaccuracies or errors in Open Lending's models could have an adverse effect on the Open Lending business.

In assisting automotive lenders with the design of the products that are offered on LPP, Open Lending makes assumptions about various matters, including repayment timing and default rates, and then utilizes proprietary underwriting modeling to analyze and forecast the performance and profitability of the loans. Open Lending's assumptions may be inaccurate and models may not be as predictive as expected for many reasons, including that they often involve matters that are inherently difficult to predict and beyond Open Lending's control (e.g., macroeconomic conditions) and that they often involve complex interactions between a number of dependent and independent variables and factors. Any significant inaccuracies or errors in assumptions could impact the profitability of the products to automotive lenders, as well as the profitability of Open Lending's business, and could result in Open Lending's underestimating potential losses and overstating potential automotive lender returns.

If assumptions or estimates Open Lending uses in preparing financial statements are incorrect or are required to change, Open Lending's reported results of operations and financial condition may be adversely affected.

Open Lending is required to make various assumptions and estimates in preparing its financial statements under GAAP, including for purposes of determining finance charge reversals, share-based compensation, asset impairment, reserves related to litigation and other legal matters, and other regulatory exposures and the amounts recorded for certain contractual payments to be paid to, or received from, Open Lending's merchants and others under contractual arrangements. In addition, significant assumptions and estimates are involved in determining certain disclosures required under GAAP, including those involving fair value measurements. If the assumptions or estimates underlying Open Lending's financial statements are incorrect, the actual amounts realized on transactions and balances subject to those estimates will be different, which could have a material adverse effect on Open Lending's business.

The consumer lending industry is highly competitive and is likely to become more competitive, and Open Lending's inability to compete successfully or maintain or improve Open Lending's market share and margins could adversely affect its business.

Open Lending's success depends on Open Lending's ability to generate usage of LPP. The consumer lending industry is highly competitive and increasingly dynamic as emerging technologies continue to enter the marketplace. Technological advances and heightened e-commerce activities have increased consumers' accessibility to products and services, which has intensified the desirability of offering loans to consumers through digital-based solutions. Open Lending faces competition in areas such as compliance capabilities, financing terms, promotional offerings, fees, approval rates, speed and simplicity of loan origination, ease-of-use, marketing expertise, service levels, products and services, technological capabilities and integration, customer service, brand and reputation. Open Lending's existing and potential competitors may decide to modify their pricing and business models to compete more directly with Open Lending's model. Any reduction in usage of LPP, or a reduction in the lifetime profitability of loans under LPP in an effort to attract or retain business, could reduce Open Lending's revenues and earnings. If Open Lending is unable to compete effectively for customer usage, its business could be materially adversely affected.

Open Lending's revenue is impacted, to a significant extent, by the general economy and the financial performance of automotive lenders.

Open Lending's business, the consumer financial services industry and automotive lenders' businesses are sensitive to macroeconomic conditions. Economic factors such as interest rates, changes in monetary and related policies, market volatility, consumer confidence and unemployment rates are among the most significant factors that impact consumer spending behavior. Weak economic conditions or a significant deterioration in economic conditions reduce the amount of disposable income consumers have, which in turn reduces consumer spending and the willingness of qualified borrowers to take out loans. Such conditions are also likely to affect the ability and willingness of borrowers to pay amounts owed to automotive lenders, each of which would have a material adverse effect on its business.

General economic conditions and the willingness of lenders to deploy capital impacts Open Lending's performance. The generation of new loans through LPP, as well as the transaction fees and other fee income to Open Lending associated with such loans, is dependent upon sales of automobiles by dealers. Dealers' sales may decrease or fail to increase as a result of factors outside of their control, such as the macroeconomic conditions referenced above, or business conditions affecting a particular automobile dealer, industry vertical or region. Weak economic conditions also could extend the length of dealers' sales cycle and cause customers to delay making (or not make) purchases of automobiles. The decline of sales by dealers for any reason will generally result in lower credit sales and, therefore, lower loan volume and associated fee income for automotive lenders, and therefore, for us. This risk is particularly acute with respect to the largest automobile dealers associated with automotive lenders that account for a significant amount of Open Lending platform revenue.

In addition, if an automobile dealer or automotive lender closes some or all of its locations or becomes subject to a voluntary or involuntary bankruptcy proceeding (or if there is a perception that it may become subject to a bankruptcy proceeding), LPP borrowers may have less incentive to pay their outstanding balances to automotive lenders, which could result in higher charge-off rates than anticipated.

Weakening economic conditions, in particular increases in unemployment, will lead to increased defaults and insurance claim payments, resulting in higher losses for insurance carriers. Increased claim payments may affect the willingness of insurance carriers to provide default insurance. In the event insurer losses cause one of insurance carriers to cease providing insurance, it would have a material adverse effect on Open Lending operations and financial results.

Because Open Lending's business is heavily concentrated on consumer lending in the U.S. automobile industry, Open Lending's results are more susceptible to fluctuations in that market than the results of a more diversified company would be.

Open Lending's business currently is concentrated on supporting consumer lending in the U.S. automobile industry. As a result, Open Lending is more susceptible to fluctuations and risks particular to U.S. consumer credit than a more diversified company would be as well as to factors that may drive the demand for automobiles, such as sales levels of new automobiles and the aging of existing inventory. Open Lending is also more susceptible to the risks of increased regulations and legal and other regulatory actions that are targeted at consumer credit, the specific consumer credit products that automotive lenders offer (including promotional financing). Open Lending's business concentration could have an adverse effect on its business.

Open Lending is, and intends in the future to continue, expanding into relationships with new lending partners, including the OEM Captive space, and Open Lending's failure to comply with applicable regulations, or accurately predict demand or growth, in those new industries could have an adverse effect on its business.

Open Lending recently expanded into and is penetrating the OEM Captive space. Open Lending believes that all automobile manufacturers have an OEM Captive or related party finance company relationship. One of the primary goals of an OEM Captive is to support automobile sales of the dealers, particularly with respect to new vehicle sales. Open Lending believes that the OEM Captive is generally the preferred lender of the OEM dealer network. Relative to traditional credit union and bank automotive lenders, OEM Captives represent a larger loan volume and therefore, larger revenue opportunity for Open Lending. Open Lending makes no assurance that it will achieve similar levels of success, if any, with OEM Captives as with other credit unions and regional automotive lenders, and may face unanticipated challenges in its ability to offer LPP to OEM Captives. In addition, the OEM Captive space is highly regulated and Open Lending, OEM Captives and other automotive lenders, as applicable, are subject to substantial regulatory requirements, including privacy laws. Open Lending has limited experience in managing these risks and the compliance requirements attendant to such regulatory requirements. The costs of compliance and any failure by Open Lending, OEM Captives or other automotive lenders, as applicable, to comply with such regulatory requirements could have a material adverse effect on Open Lending's business. Any failure by Open Lending to grow its relationships with these new lending partners could have a materially adverse impact on its business.

Open Lending may in the future expand to new industry verticals outside of the automotive industry, and failure to comply with applicable regulations, or accurately predict demand or growth, in those new industries could have an adverse effect on the Open Lending business.

Open Lending may in the future further expand into other industry verticals. There is no assurance that Open Lending will be able to successfully develop consumer financing products and services for these new industries. Open Lending's investment of resources to develop consumer financing products and services for the new industries it enters may either be insufficient or result in expenses that are excessive in light of loans actually originated by lenders in those industries. Additionally, Open Lending's nearly 20 years of experience is in the automotive lending industry and therefore, industry participants in new industry verticals may not be receptive to its financing solutions and Open Lending may face competitors with more experience and resources. The borrower profile of Consumers in new verticals may not be as attractive, in terms of average FICO scores or other attributes, as in current verticals, which may lead to higher levels of delinquencies or defaults than Open Lending has historically experienced. Industries change rapidly, and Open Lending makes no assurance that it will be able to accurately forecast demand (or the lack thereof) for a solution or that those industries will be receptive to Open Lending's product offerings. Failure to predict demand or growth accurately in new industries could have a materially adverse impact on Open Lending's business.

Open Lending's business would suffer if it fails to attract and retain highly skilled employees.

Open Lending's future success will depend on its ability to identify, hire, develop, motivate and retain highly qualified personnel for all areas of its organization, particularly information technology and sales. Trained and experienced personnel are in high demand and may be in short supply. Many of the companies with which Open Lending competes for experienced employees have greater resources than Open Lending and may be able to offer more attractive terms of employment. In addition, Open Lending invests significant time and expense in training employees, which increases their value to competitors that may seek to recruit them. Open Lending may not be able to attract, develop and maintain the skilled workforce necessary to operate its business, and labor expenses may increase as a result of a shortage in the supply of qualified personnel, which will negatively impact Open Lending's business.

The Credit Agreement that governs Open Lending's term loan contains various covenants that could limit its ability to engage in activities that may be in Open Lending's best long-term interests.

Open Lending has a term loan outstanding in the original principal amount of $170,000,000 (the "Term Loan") that was incurred under that certain Credit Agreement, dated as of March 11, 2020, among Open Lending, UBS AG, Stamford Branch, as administrative agent, the lenders from time to time party thereto and the other parties thereto, as amended (the "Credit Agreement"). A portion of the proceeds of the Term Loan were used to, among other things, finance a distribution to its equity investors prior to the consummation of the Business Combination. The Term Loan bears interest at a variable rate of LIBOR plus 6.50% (subject to a LIBOR floor of 1%) or the base rate plus 5.50%. The obligations of Open Lending under the Credit Agreement are guaranteed by all of its subsidiaries and secured by substantially all of the assets of Open Lending and its subsidiaries, in each case, subject to certain customary exceptions. The Term Loan has a maturity date of March 11, 2027. Subject to the terms and conditions set forth in the Credit Agreement, Open Lending may be required to make certain mandatory prepayments prior to maturity. Voluntary prepayments and certain mandatory prepayments may be subject to certain prepayment premiums in the first 2 years after the date thereof.

The Credit Agreement contains affirmative and negative covenants customarily applicable to senior secured credit facilities, including, among other things, customary limitations on the incurrence of indebtedness and liens; certain intercompany transactions; and other investments, dispositions of assets, issuances and redemptions of certain units, repayment of other indebtedness, and payment of dividends. The Credit Agreement also contains a maximum total net leverage ratio financial covenant that is tested quarterly and calculated based on the ratio of Open Lending's adjusted EBITDA to funded indebtedness. The maximum total net leverage ratio begins at 4.75 to 1 and then gradually decreases from year-to-year down to 2.5 to 1.0 on or after June 30, 2026. The Credit Agreement also contains customary events of default (subject to thresholds and grace periods), including payment default, covenant default, cross default to other material indebtedness, and judgment defaults.

Open Lending's ability to comply with these covenants may be affected by events beyond its control, such as market fluctuations impacting net income. Breaches of these covenants will result in a default under the Credit Agreement, subject to any applicable cure rights, in which case the administrative agent may accelerate the outstanding Term Loan.

If such acceleration under the Credit Agreement occurs, Open Lending's ability to fund its operations could be seriously harmed.

Open Lending may be unable to sufficiently protect its proprietary rights and may encounter disputes from time to time relating to its use of the intellectual property of third parties.

Open Lending relies on a combination of trademarks, service marks, copyrights, trade secrets, domain names and agreements with employees and third parties to protect its proprietary rights. Open Lending has service mark registrations in the United States. Open Lending also owns the domain name rights for Openlending.com, Openlending.net, Openlending.us, Dev-openlending.com, Lendersprotection.org, Lendersprotection.us, Len-pro.org, Lend-pro.us, Lend-pro.net, Lendpro.net, Lendpro.org, Lendpro.us, Lend-pro.com, Lendersprotection.com, Sayyestomoreloans.com, Sayyestomoreloans.net, as well as other words and phrases important to the Open Lending business. Nonetheless, third parties may challenge, invalidate or circumvent Open Lending's intellectual property, and Open Lending's intellectual property may not be sufficient to provide it with a competitive advantage.

Despite Open Lending's efforts to protect these rights, unauthorized third parties may attempt to duplicate or copy the proprietary aspects of its technology and processes. Open Lending's competitors and other third parties independently may design around or develop similar technology or otherwise duplicate Open Lending's services or products such that Open Lending could not assert its intellectual property rights against them. In addition, Open Lending's contractual arrangements may not effectively prevent disclosure of its intellectual property and confidential and proprietary information or provide an adequate remedy in the event of an unauthorized disclosure. Measures in place may not prevent misappropriation or infringement of Open Lending's intellectual property or proprietary information and the resulting loss of competitive advantage, and Open Lending may be required to litigate to protect its intellectual property and proprietary information from misappropriation or infringement by others, which is expensive and could cause a diversion of resources and may not be successful.

Open Lending also may encounter disputes from time to time concerning intellectual property rights of others, and it may not prevail in these disputes. Third parties may raise claims against Open Lending alleging that Open Lending, or consultants or other third parties retained or indemnified by Open Lending, infringe on their intellectual property rights. Some third-party intellectual property rights may be extremely broad, and it may not be possible for Open Lending to conduct its operations in such a way as to avoid all alleged violations of such intellectual property rights. Given the complex, rapidly changing and competitive technological and business environment in which Open Lending operates, and the potential risks and uncertainties of intellectual property-related litigation, an assertion of an infringement claim against Open Lending may cause Open Lending to spend significant amounts to defend the claim (even if Open Lending ultimately prevails), pay significant monetary damages, lose significant revenues, be prohibited from using the relevant systems, processes, technologies or other intellectual property (temporarily or permanently), cease offering certain products or services, or incur significant license, royalty or technology development expenses.

Moreover, it has become common in recent years for individuals and groups to purchase intellectual property assets for the sole purpose of making claims of infringement and attempting to extract settlements from companies such as Open Lending's. Even in instances where Open Lending believes that claims and allegations of intellectual property infringement against it are without merit, defending against such claims is time consuming and expensive and could result in the diversion of time and attention of Open Lending's management and employees. In addition, although in some cases a third party may have agreed to indemnify Open Lending for such costs, such indemnifying party may refuse or be unable to uphold its contractual obligations. In other cases, insurance may not cover potential claims of this type adequately or at all, and Open Lending may be required to pay monetary damages, which may be significant.

Open Lending's risk management processes and procedures may not be effective.

Open Lending's risk management processes and procedures seek to appropriately balance risk and return and mitigate risks. Open Lending has established processes and procedures intended to identify, measure, monitor and control the types of risk to which Open Lending and automotive lenders are subject, including credit risk, market risk, liquidity risk, strategic risk and operational risk. Credit risk is the risk of loss that arises when an obligor fails to meet the terms of an obligation. Market risk is the risk of loss due to changes in external market factors such as interest rates. Liquidity risk is the risk that financial conditions or overall safety and soundness are adversely affected by an inability, or perceived inability, to meet obligations and support business growth.

Strategic risk is the risk from changes in the business environment, improper implementation of decisions or inadequate responsiveness to changes in the business environment. Operational risk is the risk of loss arising from inadequate or failed processes, people or systems, external events (e.g., natural disasters), compliance, reputational or legal matters and includes those risks as they relate directly to Open Lending as well as to third parties with whom Open Lending contracts or otherwise does business.

Management of Open Lending risks depends, in part, upon the use of analytical and forecasting models. If these models are ineffective at predicting future losses or are otherwise inadequate, Open Lending may incur unexpected losses or otherwise be adversely affected. In addition, the information Open Lending uses in managing its credit and other risks may be inaccurate or incomplete as a result of error or fraud, both of which may be difficult to detect and avoid. There also may be risks that exist, or that develop in the future, that Open Lending has not appropriately anticipated, identified or mitigated, including when processes are changed or new products and services are introduced. If Open Lending's risk management framework does not effectively identify and control its risks, Open Lending could suffer unexpected losses or be adversely affected, which could have a material adverse effect on its business.

Some aspects of Open Lending's platform include open source software, and any failure to comply with the terms of one or more of these open source licenses could negatively affect its business.

Aspects of Open Lending's platform include software covered by open source licenses. The terms of various open source licenses have not been interpreted by United States courts, and there is a risk that such licenses could be construed in a manner that imposes unanticipated conditions or restrictions on Open Lending's platform. If portions of Open Lending's proprietary software are determined to be subject to an open source license, Open Lending could be required to publicly release the affected portions of its source code, re-engineer all or a portion of its technologies or otherwise be limited in the licensing of technologies, each of which could reduce or eliminate the value of Open Lending's technologies and loan products. In addition to risks related to license requirements, usage of open source software can lead to greater risks than use of third-party commercial software because open source licensors generally do not provide warranties or controls on the origin of the software. Many of the risks associated with the use of open source software cannot be eliminated and could adversely affect the Open Lending business.

To the extent that Open Lending seeks to grow through future acquisitions, or other strategic investments or alliances, Open Lending may not be able to do so effectively.

Open Lending may in the future seek to grow its business by exploring potential acquisitions or other strategic investments or alliances. Open Lending may not be successful in identifying businesses or opportunities that meet its acquisition or expansion criteria. In addition, even if a potential acquisition target or other strategic investment is identified, Open Lending may not be successful in completing such acquisition or integrating such new business or other investment. Open Lending may face significant competition for acquisition and other strategic investment opportunities from other well-capitalized companies, many of which have greater financial resources and greater access to debt and equity capital to secure and complete acquisitions or other strategic investments, than Open Lending. As a result of such competition, Open Lending may be unable to acquire certain assets or businesses, or take advantage of other strategic investment opportunities that Open Lending deems attractive; the purchase price for a given strategic opportunity may be significantly elevated; or certain other terms or circumstances may be substantially more onerous. Any delay or failure on Open Lending's part to identify, negotiate, finance on favorable terms, consummate and integrate any such acquisition, or other strategic investment opportunity could impede Open Lending's growth.

There is no assurance that Open Lending will be able to manage its expanding operations, including from acquisitions, investments or alliances, effectively or that it will be able to continue to grow, and any failure to do so could adversely affect its ability to generate revenue and control its expenses. Furthermore, Open Lending may be responsible for any legacy liabilities of businesses it acquires or be subject to additional liability in connection with other strategic investments. The existence or amount of these liabilities may not be known at the time of acquisition, or other strategic investment, and may have a material adverse effect on Open Lending's business.

Future changes in financial accounting standards may significantly change Open Lending's reported results of operations.

GAAP is subject to standard setting or interpretation by the Financial Accounting Standards Board ("FASB"), the Public Company Accounting Oversight Board ("PCAOB"), 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 Open Lending's reported financial results and could affect the reporting of transactions completed before the announcement of a change.

Additionally, Open Lending's assumptions, estimates and judgments related to complex accounting matters could significantly affect its financial results. GAAP and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to its business, including revenue recognition, finance charge reversals, and share-based compensation, are highly complex and involve subjective assumptions, estimates and judgments by Open Lending. Changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments by Open Lending could require Open Lending to make changes to its accounting systems that could increase its operating costs and significantly change its reported or expected financial performance.

Risks Related to Open Lending's Regulatory Environment

Open Lending is subject to federal and state consumer protection laws.

In connection with administration of LPP, Open Lending must comply with various regulatory regimes, including those applicable to consumer credit transactions, various aspects of which are untested as applied to Open Lending's business model. Insurance producing and claims administration services subject Open Lending to state regulation on a 50-state basis. The complex regulatory environment of the credit and insurance industries are subject to constant change and modification. While changes to statutes and promulgating new regulations may take a substantial amount of time, issuing regulatory guidance with the force of law in the form of opinions, bulletins, and notices can occur quickly. Also, consumer credit and insurance regulators often initiate inquiries into market participants, which can lead to investigations and, ultimately, enforcement actions. As a result, Open Lending is subject to a constantly evolving regulatory environment that is difficult to predict, which may affect Open Lending's business. The laws to which Open Lending directly or its services by contract are or may be subject directly or indirectly include:

- state laws and regulations that impose requirements related to loan disclosures and terms, credit discrimination, and unfair or deceptive business practices;
- the Truth-in-Lending Act, and its implementing Regulation Z, and similar state laws, which require certain disclosures to borrowers regarding the terms and conditions of their loans and credit transactions;
- Section 5 of the Federal Trade Commission Act, which prohibits unfair and deceptive acts or practices in or affecting commerce, and Section 1031 of the Dodd-Frank Act, which prohibits UDAAP, in connection with any consumer financial product or service;
- the Equal Credit Opportunity Act, and its implementing Regulation B, which prohibit creditors from discriminating against credit applicants on the basis of race, color, sex, age, religion, national origin, marital status, the fact that all or part of the applicant's income derives from any public assistance program or the fact that the applicant has in good faith exercised any right under the Federal Consumer Credit Protection Act or any applicable state law;
- the FCRA, and its implementing Regulation V, as amended by the Fair and Accurate Credit Transactions Act, which promotes the accuracy, fairness and privacy of information in the files of consumer reporting agencies;
- the Fair Debt Collection Practices Act, and its implementing Regulation F, the Telephone Consumer Protection Act, as well as state debt collection laws, all of which provide guidelines and limitations concerning the conduct of debt collectors in connection with the collection of consumer debts;
- the Bankruptcy Code, which limits the extent to which creditors may seek to enforce debts against parties who have filed for bankruptcy protection;
- the GLBA, and the California Consumer Protection Act, which include limitations on the disclosure of nonpublic personal information by financial institutions about a consumer to nonaffiliated third parties, in certain circumstances requires financial institutions to limit the use and further disclosure of nonpublic personal information by nonaffiliated third parties to whom they disclose such information and requires financial institutions to disclose certain privacy policies and practices with respect to information sharing with affiliated and nonaffiliated entities as well as to safeguard personal customer information, and other privacy laws and regulations;
- the rules and regulations promulgated by the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the National Credit Union Administration, as well as state banking regulators;
- the Servicemembers Civil Relief Act, which allows active duty military members to suspend or postpone certain civil obligations so that the military member can devote his or her full attention to military duties;
- the Electronic Fund Transfer Act, and Regulation E promulgated thereunder, which provide disclosure requirements, guidelines and restrictions on the electronic transfer of funds from consumers' bank accounts;
- the Electronic Signatures in Global and National Commerce Act, and similar state laws, particularly the Uniform Electronic Transactions Act, which authorize the creation of legally binding and enforceable agreements utilizing electronic records and signatures; and
- the Bank Secrecy Act, which relates to compliance with anti-money laundering, customer due diligence and record-keeping policies and procedures.

While Open Lending has developed policies and procedures designed to assist in compliance with these laws and regulations, no assurance is given that its compliance policies and procedures will be effective. Failure to comply with these laws and with regulatory requirements applicable to Open Lending's business could subject it to damages, revocation of licenses, class action lawsuits, administrative enforcement actions, and civil and criminal liability, which may harm Open Lending's business.

Open Lending's industry is highly regulated and is undergoing regulatory transformation, which results in inherent uncertainty. Changing federal, state, and local laws, as well as changing regulatory enforcement policies and priorities, may negatively impact Open Lending's business.

In connection with Open Lending's administration of LPP, Open Lending is subject to extensive regulation, supervision and examination under United States federal and state laws and regulations. Open Lending is required to comply with numerous federal, state, and local laws and regulations that regulate, among other things, the manner in which Open Lending administers LPP, the terms of the loans that automotive lenders originate, the products of insurance carriers, production of those products, insurance claims administration, and the fees that Open Lending may charge. Any failure to comply with any of these laws or regulations could subject Open Lending to lawsuits or governmental actions and/or damage Open Lending's reputation, which could materially and adversely affect Open Lending's business. Regulators have broad discretion with respect to the interpretation, implementation, and enforcement of these laws and regulations, including through enforcement actions that could subject Open Lending to civil money penalties, customer remediations, increased compliance costs, and limits or prohibitions on Open Lending's ability to offer certain products or services or to engage in certain activities. In addition, to the extent that Open Lending undertakes actions requiring regulatory approval or non-objection, regulators may make their approval or non-objection subject to conditions or restrictions that could have a material adverse effect on its business. Moreover, any competitors subject to different, or in some cases less restrictive, legislative or regulatory regimes may have or obtain a competitive advantage over Open Lending.

Additionally, federal, state, and local governments and regulatory agencies have proposed or enacted numerous new laws, regulations, and rules related to loans. Federal and state consumer credit and insurance regulators are also enforcing existing laws, regulations, and rules more aggressively and enhancing their supervisory expectations regarding the management of legal and regulatory compliance risks. Consumer finance and insurance regulation is constantly changing, and new laws or regulations, or new interpretations of existing laws or regulations, could have a materially adverse impact on Open Lending's ability to operate as currently intended.

These regulatory changes and uncertainties make Open Lending's business planning more difficult and could result in changes to its business model and potentially adversely impact its results of operations. New laws or regulations also require Open Lending to incur significant expenses to ensure compliance. As compared to Open Lending's competitors, Open Lending could be subject to more stringent state or local regulations or could incur marginally greater compliance costs as a result of regulatory changes. In addition, Open Lending's failure to comply (or to ensure that its agents and third-party service providers comply) with these laws or regulations may result in costly litigation or enforcement actions, the penalties for which could include: revocation of licenses; fines and other monetary penalties; civil and criminal liability; substantially reduced payments by borrowers; modification of the original terms of loans, permanent forgiveness of debt, or inability to, directly or indirectly, collect all or a part of the principal of or interest on loans; and increased purchases of receivables underlying loans originated by automotive lenders and indemnification claims.

Proposals to change the statutes affecting financial services companies are frequently introduced in Congress and state legislatures that, if enacted, may affect its operating environment in substantial and unpredictable ways. In addition, numerous federal and state regulators have the authority to promulgate or change regulations that could have a similar effect on Open Lending's operating environment. Open Lending cannot determine with any degree of certainty whether any such legislative or regulatory proposals will be enacted and, if enacted, the ultimate impact that any such potential legislation or implementing regulations, or any such potential regulatory actions by federal or state regulators, would have upon Open Lending's business.

With respect to state regulation, although Open Lending seeks to comply with applicable state insurance, insurance brokering, insurance agency regulations, third-party administration company statutes and similar statutes in all U.S. jurisdictions, and with licensing and other requirements that Open Lending believes may be applicable to it, if Open Lending is found to not have complied with applicable laws, Open Lending could lose one or more of its licenses or authorizations or face other sanctions or penalties or be required to obtain a license in one or more such jurisdictions, which may have an adverse effect on Open Lending's ability to make the LPP available to borrowers in particular states and, thus, adversely impact Open Lending's business.

Open Lending is also subject to potential enforcement and other actions that may be brought by state attorneys general or other state enforcement authorities and other governmental agencies. Any such actions could subject Open Lending to civil money penalties and fines, customer remediations, and increased compliance costs, damage its reputation and brand and limit or prohibit Open Lending's ability to offer certain products and services or engage in certain business practices.

New laws, regulations, policy or changes in enforcement of existing laws or regulations applicable to Open Lending's business, or reexamination of current practices, could adversely impact Open Lending's profitability, limit its ability to continue existing or pursue new business activities, require it to change certain of its business practices or alter its relationships with LPP customers, affect retention of key personnel, or expose Open Lending to additional costs (including increased compliance costs and/or customer remediation). These changes also may require Open Lending to invest significant resources, and devote significant management attention, to make any necessary changes and could adversely affect its business.

The highly regulated environment in which automotive lenders and insurance carriers operate could have an adverse effect on Open Lending's business.

Automotive lenders and insurance carriers are subject to federal and/or state supervision and regulation. Federal regulation of the banking or insurance industries, along with tax and accounting laws, regulations, rules, and standards, may limit their operations significantly and control the methods by which they conduct business. In addition, compliance with laws and regulations can be difficult and costly, and changes to laws and regulations can impose additional compliance requirements. For example, the Dodd-Frank Act imposes significant regulatory and compliance obligations on financial institutions. Regulatory requirements affect automotive lenders' lending and investment practices and insurance carriers' offerings, among other aspects of their businesses, and restrict transactions between Open Lending and its automotive lenders and insurance carriers. These requirements may constrain the operations of automotive lenders and insurance carriers, and the adoption of new laws and changes to, or repeal of, existing laws may have a further impact on Open Lending's business.

In choosing whether and how to conduct business with Open Lending, current and prospective automotive lenders and insurance carriers can be expected to take into account the legal, regulatory, and supervisory regimes that apply to them, including potential changes in the application or interpretation of regulatory standards, licensing requirements, or supervisory expectations. Regulators may elect to alter standards or the interpretation of the standards used to measure regulatory compliance or to determine the adequacy of liquidity, certain risk management or other operational practices for financial services companies in a manner that impacts automotive lenders or insurance carriers. Furthermore, the regulatory agencies have extremely broad discretion in their interpretation of the regulations and laws and their interpretation of the quality of automotive lenders' loan portfolios and other assets. If any regulatory agency's assessment of the quality of automotive lenders' assets, operations, lending practices, investment practices or other aspects of their business changes, or those with respect to insurance carriers, it may materially reduce automotive lenders' or insurance carriers' earnings, capital ratios and share price in such a way that affects Open Lending's business.

Bank holding companies, credit unions, financial institutions, automobile lenders, and insurance carriers and producers are extensively regulated and currently face an uncertain regulatory environment. Applicable state and federal laws, regulations and interpretations, including licensing laws and regulations, and enforcement policies and accounting principles have been subject to significant changes in recent years, and may be subject to significant future changes. Open Lending cannot predict with any degree of certainty the substance or effect of pending or future legislation or regulation or the application of laws and regulations to automotive lenders and insurance carriers. Future changes may have a material adverse effect on automotive lenders or insurance carriers and, therefore, on Open Lending.

Open Lending is subject to regulatory examinations and investigations and may incur fines, penalties and increased costs that could negatively impact the Open Lending business.

Federal and state agencies have broad enforcement powers over Open Lending, including powers to investigate Open Lending's business practices and broad discretion to deem particular practices unfair, deceptive, abusive or otherwise not in accordance with the law. The continued focus of regulators on the consumer financial services industry has resulted, and could continue to result, in new enforcement actions that could, directly or indirectly, affect the manner in which Open Lending conducts its business and increase the costs of defending and settling any such matters, which could negatively impact its business. In some cases, regardless of fault, it may be less time-consuming or costly to settle these matters, which may require Open Lending to implement certain changes to its business practices, provide remediation to certain individuals or make a settlement payment to a given party or regulatory body. There is no assurance that any future settlements will not have a material adverse effect on Open Lending's business.

In addition, the laws and regulations applicable to Open Lending are subject to administrative or judicial interpretation. Some of these laws and regulations have been enacted only recently and may not yet have been interpreted or may be interpreted infrequently. As a result of infrequent or sparse interpretations, ambiguities in these laws and regulations may create uncertainty with respect to what type of conduct is permitted or restricted under such laws and regulations. Any ambiguity under a law or regulation to which Open Lending is subject may lead to regulatory investigations, governmental enforcement actions and private causes of action, such as class action lawsuits, with respect to Open Lending's compliance with such laws or regulations.

The contours of the Dodd-Frank UDAAP standard remain uncertain, and there is a risk that certain features of the Open Lending business could be deemed to be a UDAAP.

The Dodd-Frank Act prohibits UDAAP and authorizes the Consumer Financial Protection Bureau ("CFPB") to enforce that prohibition. The CFPB has filed a large number of UDAAP enforcement actions against consumer lenders for practices that do not appear to violate other consumer finance statutes. There is a risk that the CFPB could determine that certain features of automotive lender loans are unfair, deceptive or abusive, which could have a material adverse effect on Open Lending's business.

Regulations relating to privacy, information security, and data protection could increase Open Lending's costs, affect or limit how Open Lending collects and uses personal information, and adversely affect its business opportunities.

Open Lending is subject to various privacy, information security and data protection laws, including requirements concerning security breach notification, and it could be negatively impacted by them. For example, in connection with Open Lending's administration of LPP, Open Lending is subject to the GLBA and implementing regulations and guidance. Among other things, the GLBA (i) imposes certain limitations on the ability to share consumers' nonpublic personal information with nonaffiliated third parties and (ii) requires certain disclosures to consumers about their information collection, sharing and security practices and their right to "opt out" of the institution's disclosure of their personal financial information to nonaffiliated third parties (with certain exceptions).

Furthermore, legislators and/or regulators are increasingly adopting or revising privacy, information security and data protection laws that potentially could have a significant impact on Open Lending's current and planned privacy, data protection and information security-related practices; Open Lending's collection, use, sharing, retention and safeguarding of consumer and/or employee information; and some of Open Lending's current or planned business activities. This also could increase Open Lending's costs of compliance and business operations and could reduce income from certain business initiatives.

Compliance with current or future privacy, information security and data protection laws (including those regarding security breach notification) affecting customer and/or employee data to which Open Lending is subject could result in higher compliance and technology costs and could restrict Open Lending's ability to provide certain products and services (such as products or services that involve sharing information with third parties or storing sensitive credit card information), which could materially and adversely affect Open Lending's profitability. Additionally, there is always a danger that regulators can attempt to assert authority over the Open Lending business in the area of privacy, information security and data protection. If Open Lending's vendors also become subject to laws and regulations in the more stringent and expansive jurisdictions, this could result in increasing costs on Open Lending's business.

Privacy requirements, including notice and opt-out requirements, under the GLBA and FCRA are enforced by the Federal Trade Commission and by the CFPB through UDAAP and are a standard component of CFPB examinations. State entities also may initiate actions for alleged violations of privacy or security requirements under state law. Open Lending's failure to comply with privacy, information security and data protection laws could result in potentially significant regulatory investigations and government actions, litigation, fines or sanctions; consumer, automotive lender or merchant actions; and damage to Open Lending's reputation and brand, all of which could have a material adverse effect on Open Lending's business.

If Open Lending was found to be operating without having obtained necessary state or local licenses, it could adversely affect its business.

Certain states have adopted laws regulating and requiring licensing by parties that engage in certain activity regarding consumer finance and insurance transactions, including facilitating and assisting such transactions in certain circumstances. Furthermore, certain states and localities have also adopted laws requiring licensing for consumer debt collection or servicing. While Open Lending believes it has obtained all necessary licenses, the application of some consumer finance or insurance producer and claims administration licensing laws to LPP is unclear. If Open Lending was found to be in violation of applicable state licensing requirements by a court or a state, federal, or local enforcement agency, it could be subject to fines, damages, injunctive relief (including required modification or discontinuation of Open Lending's business in certain areas), criminal penalties and other penalties or consequences, and the loans originated through LPP could be rendered void or unenforceable in whole or in part, any of which could have a material adverse effect on Open Lending's business.

Open Lending may in the future be subject to federal or state regulatory inquiries regarding its business.

From time to time, in the normal course of its business, Open Lending may receive or be subject to, inquiries or investigations by state and federal regulatory agencies and bodies, such as the CFPB, state Attorneys General, state financial regulatory agencies, and other state or federal agencies or bodies regarding LPP, including the origination and servicing of consumer loans, practices by merchants or other third parties, production of insurance policies, administration of insurance claims and licensing, and registration requirements. For example, in the future, Open Lending may enter into regulatory agreements with state agencies regarding issues including automotive lender conduct and oversight and loan pricing. Open Lending also may receive inquiries from state regulatory agencies regarding requirements to obtain licenses from or register with those states, including in states where Open Lending has determined that it is not required to obtain such a license or be registered with the state. Any such inquiries or investigations could involve substantial time and expense to analyze and respond to, could divert management's attention and other resources from running Open Lending's business, and could lead to public enforcement actions or lawsuits and fines, penalties, injunctive relief, and the need to obtain additional licenses that it does not currently possess. Open Lending's involvement in any such matters, whether tangential or otherwise, even if the matters are ultimately determined in Open Lending's favor, could also cause significant harm to its reputation, lead to additional investigations and enforcement actions from other agencies or litigants, and further divert management attention and resources from the operation of Open Lending's business. As a result, the outcome of legal and regulatory actions arising out of any state or federal inquiries Open Lending receives could be material to its business, results of operations, financial condition and cash flows and could have a material adverse effect on its business, financial condition or results of operations.

Risks Related to the Business Combination and Integration of Businesses

Open Lending's management has limited experience in operating a public company.

Open Lending's executive officers and directors have limited experience in the management of a publicly traded company. Open Lending's management team may not successfully or effectively manage the ongoing transition to a public company, and the Company will be subject to significant regulatory oversight and reporting obligations under federal securities laws. Their limited experience in dealing with the increasingly complex laws pertaining to public companies could be a significant disadvantage in that it is likely that an increasing amount of their time may be devoted to these activities which will result in less time being devoted to the management and growth of Open Lending. It is possible that Open Lending will be required to expand its employee base and hire additional employees to support its operations as a public company which will increase our operating costs in future periods.

We will incur significant increased expenses and administrative burdens as a public company, which could have an adverse effect on its business, financial condition and results of operations.

As a public company, we will continue to face increased legal, accounting, administrative and other costs and expenses as a public company that we did not incur as a private company. The Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), including the requirements of Section 404, as well as rules and regulations subsequently implemented by the SEC, the Dodd-Frank Act of 2010 and the rules and regulations promulgated and to be promulgated thereunder, the PCAOB and the securities exchanges, impose additional reporting and other obligations on public companies. Compliance with public company requirements will increase costs and make certain activities more time-consuming. A number of those requirements will require us to carry out activities we have not done previously. In addition, additional expenses associated with SEC reporting requirements will be incurred. Furthermore, if any issues in complying with those requirements are identified (for example, if the auditors identify a material weakness or significant deficiency in the internal control over financial reporting), we could incur additional costs rectifying those issues, and the existence of those issues could adversely affect our reputation or investor perceptions of it. It may also be more expensive to obtain director and officer liability insurance. Risks associated with our status as a public company may make it more difficult to attract and retain qualified persons to serve on the board of directors or as executive officers. The additional reporting and other obligations imposed by these rules and regulations will increase legal and financial compliance costs and the costs of related legal, accounting and administrative activities. These increased costs will require us to divert a significant amount of money that could otherwise be used to expand the business and achieve strategic objectives. Advocacy efforts by stockholders and third parties may also prompt additional changes in governance and reporting requirements, which could further increase costs.

We qualify as an emerging growth company within the meaning of the Securities Act, and if we take advantage of certain exemptions from disclosure requirements available to emerging growth companies this could make our securities less attractive to investors and may make it more difficult to compare our performance to the performance of other public companies.

We qualify as an "emerging growth company" as defined in Section 2(a)(19) of the Securities Act, as modified by the JOBS Act. As such, we are eligible for and intend to take advantage of certain exemptions from various reporting requirements applicable to other public companies that are not emerging growth companies for as long as it continues to be an emerging growth company, including (i) the exemption from the auditor attestation requirements with respect to internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act, (ii) the exemptions from say-on-pay, say-on-frequency and say-on-golden parachute voting requirements and (iii) reduced disclosure obligations regarding executive compensation in its periodic reports and proxy statements. We will remain an emerging growth company until the earliest of (i) the Company is deemed to be a "large accelerated filer," as defined by the Securities Exchange Act of 1934, as amended, or the Exchange Act, (ii) the last day of the fiscal year in which we have total annual gross revenue of $1.07 billion or more during such fiscal year, (iii) the date on which we have issued more than $1 billion in non-convertible debt in the prior three-year period or (iv) the last day of the fiscal year following the fifth anniversary of the date of the first sale of our common stock in our initial public offering. In addition, Section 107 of the JOBS Act also provides that an emerging growth company can take advantage of the exemption from complying with new or revised accounting standards provided in Section 7(a)(2)(B) of the Securities Act as long as we are an emerging growth company. An emerging growth company can therefore delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We may elect not to avail ourselves of this exemption from new or revised accounting standards and, therefore, we may not be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies. Investors may find our common stock less attractive because we will rely on these exemptions, which may result in a less active trading market for our common stock and its stock price may be more volatile.

We may from time to time be subject to litigation and other claims.

We may from time to time become subject to litigation claims in the operation of our business, including, but not limited to, with respect to employee matters and contract matters. From time to time, we may also face intellectual property infringement, misappropriation, or invalidity/non-infringement claims from third parties, and some of these claims may lead to litigation. We may initiate claims to assert or defend our intellectual property against third parties. Any litigation may be expensive and time-consuming and could divert management's attention from our business and negatively affect its operating results or financial condition. The outcome of any litigation cannot be guaranteed, and adverse outcomes can affect us negatively.

Our ability to successfully operate the business will be largely depend upon the efforts of certain of our key personnel. The loss of such key personnel could negatively impact our operations and financial results.

Our ability to successfully operate the business is dependent upon the efforts of certain of our key personnel. It is possible that we will lose some key personnel, the loss of which could negatively impact our operations and profitability. Furthermore, certain of our key personnel may be unfamiliar with the requirements of operating a company regulated by the SEC, which could cause us to have to expend time and resources helping them become familiar with such requirements.

Our principal stockholders and management control us and their interests may conflict with yours in the future.

Our executive officers and directors and significant affiliated stockholders own nearly 30% of the outstanding voting stock of the Company as of the date of this report. Each share of our common stock initially entitles its holders to one vote on all matters presented to stockholders generally. Accordingly, those owners, if voting in the same manner, will be able to control the election and removal of our directors and thereby determine corporate and management policies, including potential mergers or acquisitions, payment of dividends, asset sales, amendments of the certificate of incorporation and bylaws and other significant corporate transactions for so long as they retain significant ownership. This concentration of ownership may delay or deter possible changes in control of Open Lending, which may reduce the value of an investment in our common stock. So long as they continue to own a significant amount of the combined voting power, even if such amount is less than 50%, they will continue to be able to strongly influence or effectively control decisions of the Company.

We will be required to make payments under the Tax Receivable Agreement for certain tax benefits we may claim, and the amounts of such payments could be significant.

In connection with the closing of the Business Combination, Open Lending entered into the Tax Receivable Agreement with Nebula, the Blocker, the Blocker Holder, and Open Lending. Prior to the closing of the Business Combination, (i) 100% of the interest in Open Lending was held by the Blocker and the Company Unit Sellers, and (ii) 100% of the Blocker was held by the Blocker Holder. The Tax Receivable Agreement generally provides for the payment by Open Lending to the Company Unit Sellers and Blocker Holder, as applicable, of 85% of the net cash savings, if any, in U.S. federal, state and local income tax that Open Lending actually realizes (or is deemed to realize in certain circumstances) in periods after the closing of the Business Combination as a result of: (i) certain tax attributes of Blocker and/or Open Lending that existed prior to the Business Combination and were attributable to the Blocker; (ii) certain increases in the tax basis of Open Lending's assets resulting from the Second Merger; (iii) imputed interest deemed to be paid by Open Lending as a result of payments made under the Tax Receivable Agreement; and (iv) certain increases in tax basis resulting from payments under the Tax Receivable Agreement.

Open Lending will retain the benefit of the remaining 15% of these cash savings. The amount of the cash payments that Open Lending may be required to make under the Tax Receivable Agreement could be significant and is dependent upon future events and assumptions, including the amount and timing of taxable income Open Lending generates in the future, the U.S. federal income tax rate then applicable and the portion of Open Lending's payments under the Tax Receivable Agreement that constitute interest or give rise to depreciable or amortizable tax basis. Moreover, payments under the Tax Receivable Agreement will be based on the tax reporting positions that Open Lending determines, which tax reporting positions are subject to challenge by taxing authorities. Open Lending will be dependent on distributions from the Blocker to make payments under the Tax Receivable Agreement, and we cannot guarantee that such distributions will be made in sufficient amounts or at the times needed to enable Open Lending to make its required payments under the Tax Receivable Agreement, or at all. Any payments made by Open Lending to the Company Unit Sellers or Blocker Holder under the Tax Receivable Agreement will generally reduce the amount of overall cash flow that might have otherwise been available to Open Lending. To the extent that Open Lending is unable to make timely payments under the Tax Receivable Agreement for any reason, the unpaid amounts will be deferred and will accrue interest until paid. Nonpayment for a specified period may constitute a breach of a material obligation under the Tax Receivable Agreement, and therefore, may accelerate payments due under the Tax Receivable Agreement. The payments under the Tax Receivable Agreement are also not conditioned upon the Company Unit Sellers or Blocker Holder maintaining a continued ownership interest in us.

In certain cases, payments under the Tax Receivable Agreement may be accelerated and/or significantly exceed the actual benefits, if any, we realize in respect of the tax attributes subject to the Tax Receivable Agreement.

The Tax Receivable Agreement provides that if we breach any of our material obligations under the Tax Receivable Agreement, if we undergo a change of control or if, at any time, we elect an early termination of the Tax Receivable Agreement, then the Tax Receivable Agreement will terminate and our obligations, or our successor's obligations, to make payments under the Tax Receivable Agreement would accelerate and become immediately due and payable. The amount due and payable in those circumstances is determined based on certain assumptions, including an assumption that we would have sufficient taxable income to fully utilize all potential future tax benefits that are subject to the Tax Receivable Agreement. We may need to incur debt to finance payments under the Tax Receivable Agreement to the extent our cash resources are insufficient to meet our obligations under the Tax Receivable Agreement as a result of timing discrepancies or otherwise.

As a result of the foregoing, (i) we could be required to make cash payments to the Company Unit Sellers or Blocker Holder that are greater than the specified percentage of the actual benefits we ultimately realize in respect of the tax benefits that are subject to the Tax Receivable Agreement, and (ii) we could be required to make a cash payment equal to the present value of the anticipated future tax benefits that are the subject of the Tax Receivable Agreement, which payment may be made significantly in advance of the actual realization, if any, of such future tax benefits. In these situations, our obligations under the Tax Receivable Agreement could have a substantial negative impact on our liquidity and could have the effect of delaying, deferring or preventing certain mergers, asset sales, other forms of business combination, or other changes of control due to the additional transaction costs a potential acquirer may attribute to satisfying such obligations. There can be no assurance that we will be able to finance our obligations under the Tax Receivable Agreement.

We will not be reimbursed for any payments made to the Company Unit Sellers or Blocker Holder under the Tax Receivable Agreement in the event that any tax benefits are disallowed.

We will not be reimbursed for any cash payments previously made to the Company Unit Sellers or Blocker Holder pursuant to the Tax Receivable Agreement if any tax benefits initially claimed by us are subsequently challenged by a taxing authority and are ultimately disallowed. Instead, any excess cash payments made by us to a Company Unit Seller or Blocker Holder will be netted against any future cash payments that we might otherwise be required to make under the terms of the Tax Receivable Agreement. However, a challenge to any tax benefits initially claimed by us may not arise for a number of years following the initial time of such payment or, even if challenged early, such excess cash payment may be greater than the amount of future cash payments that we might otherwise be required to make under the terms of the Tax Receivable Agreement and, as a result, there might not be future cash payments from which to net against. The applicable U.S. federal income tax rules are complex and factual in nature, and there can be no assurance that the IRS or a court will not disagree with our tax reporting positions. As a result, it is possible that we could make cash payments under the Tax Receivable Agreement that are substantially greater than our actual cash tax savings.

Our amended and restated bylaws designate specific courts as the exclusive forum for certain litigation that may be initiated by our stockholders, which could limit its stockholders' ability to obtain a favorable judicial forum for disputes with us.

Pursuant to our amended and restated bylaws, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware is the sole and exclusive forum for any state law claim for (1) any derivative action or proceeding brought on our behalf; (2) any action asserting a claim of or based on a breach of a fiduciary duty owed by any director, officer or other employee of ours to us or our stockholders; (3) any action asserting a claim pursuant to any provision of the DGCL, our amended and restated certificate of incorporation or our amended and restated bylaws; or (4) any action asserting a claim governed by the internal affairs doctrine, or the Delaware Forum Provision. The Delaware Forum Provision will not apply to any causes of action arising under the Securities Act or the Exchange Act. Our amended and restated bylaws further provide that unless we consent in writing to the selection of an alternative forum, the United States District Court for the Western District of Texas shall be the sole and exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act, or the Federal Forum Provision. In addition, our amended and restated bylaws provide that any person or entity purchasing or otherwise acquiring any interest in shares of our common stock is deemed to have notice of and consented to the Delaware Forum Provision and the Federal Forum Provision; provided, however, that stockholders cannot and will not be deemed to have waived our compliance with the federal securities laws and the rules and regulations thereunder.

We recognize that the Delaware Forum Provision and the Federal Forum Provision in our amended and restated bylaws may impose additional litigation costs on stockholders in pursuing any such claims, particularly if the stockholders do not reside in or near the State of Delaware or the State of Texas. Additionally, the forum selection clauses in our amended and restated bylaws may limit our stockholders' ability to bring a claim in a judicial forum that they find favorable for disputes with us or our directors, officers or employees, which may discourage the filing of lawsuits against us and our directors, officers and employees, even though an action, if successful, might benefit our stockholders. In addition, while the Delaware Supreme Court ruled in March 2020 that federal forum selection provisions purporting to require claims under the Securities Act be brought in federal court were "facially valid" under Delaware law, there is uncertainty as to whether other courts will enforce our Federal Forum Provision. If the Federal Forum Provision is found to be unenforceable, we may incur additional costs associated with resolving such matters. The Federal Forum Provision may also impose additional litigation costs on stockholders who assert that the provision is not enforceable or invalid. The Court of Chancery of the State of Delaware and the United States District Court for the Western District of Texas may also reach different judgments or results than would other courts, including courts where a stockholder considering an action may be located or would otherwise choose to bring the action, and such judgments may be more or less favorable to us than our stockholders.

Risks Related to Our Common Stock

An active trading market for our common stock may not be sustained, which may make it difficult to sell the shares of our common stock you purchase.

An active trading market for our common stock may not be sustained, which would make it difficult for you to sell your shares of our common stock at an attractive price (or at all). The market price of our common stock may decline below your purchase price, and you may not be able to sell your shares of our common stock at or above the price you paid for such shares (or at all).

There can be no assurance that we will be able to comply with the continued listing standards of NASDAQ.

If NASDAQ delists our shares of common stock from trading on its exchange for failure to meet Nasdaq's listing standards, we and our stockholders could face significant material adverse consequences including:

- a limited availability of market quotations for our securities;
- reduced liquidity for our securities;
- a determination that our common stock is a "penny stock" which will require brokers trading in our common stock to adhere to more stringent rules and possibly result in a reduced level of trading activity in the secondary trading market for our securities;
- a limited amount of news and analyst coverage; and
- a decreased ability to issue additional securities or obtain additional financing in the future.

The market price of our common stock may be volatile, which could cause the value of your investment to decline.

Even if a trading market develops, the market price of our common stock may be highly volatile and could be subject to wide fluctuations. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. Securities markets worldwide experience significant price and volume fluctuations. This market volatility, as well as general economic, market and political conditions, could reduce the market price of shares of our common stock in spite of our operating performance. In addition, our results of operations could be below the expectations of public market analysts and investors due to a number of potential factors, including variations in our quarterly or annual results of operations, additions or departures of key management personnel, the loss of key automotive lenders, changes in our earnings estimates (if provided) or failure to meet analysts' earnings estimates, publication of research reports about our industry, litigation and government investigations, changes or proposed changes in laws or regulations or differing interpretations or enforcement thereof affecting our business, adverse market reaction to any indebtedness we may incur or securities we may issue in the future, changes in market valuations of similar companies or speculation in the press or the investment community with respect to us or our industry, adverse announcements by us or others and developments affecting us, announcements by our competitors of significant contracts, acquisitions, dispositions, strategic partnerships, joint ventures or capital commitments, actions by institutional stockholders, and increases in market interest rates that may lead investors in our shares to demand a higher yield, and in response the market price of shares of our common stock could decrease significantly.

These broad market and industry factors may decrease the market price of our common stock, regardless of our actual operating performance. The stock market in general has, from time to time, experienced extreme price and volume fluctuations. In addition, in the past, following periods of volatility in the overall market and the market price of a company's securities, securities class action litigation has often been instituted against these companies. Such litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

Our issuance of additional capital stock in connection with financings, acquisitions, investments, our stock incentive plans or otherwise will dilute all other stockholders.

We expect to issue additional capital stock in the future that will result in dilution to all other stockholders. We expect to grant equity awards to employees, directors, and consultants under our stock incentive plans. We may also raise capital through equity financings in the future. As part of our business strategy, we may acquire or make investments in complementary companies, products, or technologies and issue equity securities to pay for any such acquisition or investment. Any such issuances of additional capital stock may cause stockholders to experience significant dilution of their ownership interests and the per share value of our common stock to decline.

Sales of a substantial amount of our common stock could cause the price of our securities to fall.

Following the recently completed underwritten public offering, nearly 30% of the outstanding shares of our common stock is held by entities affiliated with us and our executive officers and directors. Sales of substantial amounts of our common stock in the public market, or the perception that such sales will occur, could adversely affect the market price of our common stock and make it difficult for us to raise funds through securities offerings in the future. In addition, in connection with the underwritten public offering that closed on December 14, 2020, all of our directors, our executive officers and the selling stockholders each agreed, subject to certain exceptions, to be subject to a 90-day lock-up restriction in connection with this offering. The market price of our common stock may decline when this lock-up restriction lapses.

The exercise of registration rights may adversely affect the market price of our common stock.

In connection with the consummation of the Business Combination, Open Lending, LLC, Open Lending Corporation, Nebula, certain persons and entities holding membership units of Open Lending and certain persons and entities holding Founder Shares (collectively, the "Holders") entered into the Investor Rights Agreement. Pursuant to the terms of the Investor Rights Agreement, we are obligated to file a registration statement to register the resale of certain of our securities held by the Holders. In addition, pursuant to the terms of the Investor Rights Agreement and subject to certain requirements and customary conditions, including with regard to the number of demand rights that may be exercised, the Holders may demand at any time or from time to time, that we file a registration statement on Form S-1, or any similar long-form registration statement, or if available, on Form S-3 to register the shares of our common stock held by such Holders. The Investor Rights Agreement also provides the Holders with "piggy-back" registration rights, subject to certain requirements and customary conditions. The Investor Rights Agreement further provides for our shares of common stock held by the Holders to be locked-up for 180 days after the closing of the Business Combination. The registration and availability of such a significant number of securities for trading in the public market may have an adverse effect on the market price of our common stock.

Because we have no current plans to pay cash dividends on our common stock, you may not receive any return on investment unless you sell your common stock for a price greater than that which you paid for it.

We have no current plans to pay cash dividends on our common stock. The declaration, amount and payment of any future dividends will be at the sole discretion of our board of directors. Our board of directors may take into account general and economic conditions, our financial condition and operating results, our available cash, current and anticipated cash needs, capital requirements, contractual, legal, tax and regulatory restrictions, implications on the payment of dividends by us to our stockholders or by our subsidiary to us and such other factors as our board of directors may deem relevant. In addition, the terms of our existing financing arrangements restrict or limit our ability to pay cash dividends. Accordingly, we may not pay any dividends on our common stock in the foreseeable future.

Future offerings of debt or equity securities by us may adversely affect the market price of our common stock.

In the future, we may attempt to obtain financing or to further increase our capital resources by issuing additional shares of our common stock or offering debt or other equity securities, including commercial paper, medium-term notes, senior or subordinated notes, debt securities convertible into equity or shares of preferred stock. Future acquisitions could require substantial additional capital in excess of cash from operations. We would expect to obtain the capital required for acquisitions through a combination of additional issuances of equity, corporate indebtedness and/or cash from operations.

Issuing additional shares of our common stock or other equity securities or securities convertible into equity may dilute the economic and voting rights of our existing stockholders or reduce the market price of our common stock or both. Upon liquidation, holders of such debt securities and preferred shares, if issued, and lenders with respect to other borrowings would receive a distribution of our available assets prior to the holders of our common stock. Debt securities convertible into equity could be subject to adjustments in the conversion ratio pursuant to which certain events may increase the number of equity securities issuable upon conversion. Preferred shares, if issued, could have a preference with respect to liquidating distributions or a preference with respect to dividend payments that could limit our ability to pay dividends to the holders of our common stock. Our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, which may adversely affect the amount, timing and nature of our future offerings.

Certain provisions of our certificate of incorporation and bylaws could hinder, delay or prevent a change in control of us, which could adversely affect the price of our common stock.

Certain provisions of our certificate of incorporation and bylaws could make it more difficult for a third party to acquire us without the consent of our Board of Directors. Among other things, these provisions:

- authorize the issuance of undesignated preferred stock, the terms of which may be established and the shares of which may be issued without stockholder approval, and which may include super voting, special approval, dividend, or other rights or preferences superior to the rights of the holders of our common stock;
- prohibit stockholder action by written consent, requiring all stockholder actions be taken at a meeting of our stockholders;
- provide that the Board of Directors is expressly authorized to make, alter or repeal our bylaws;
- establish advance notice requirements for nominations for elections to our Board of Directors or for proposing matters that can be acted upon by stockholders at stockholder meetings; and
- establish a classified Board of Directors, as a result of which our Board of Directors will be divided into three classes, with each class serving for staggered three-year terms, which prevents stockholders from electing an entirely new Board of Directors at an annual meeting.

In addition, these provisions may make it difficult and expensive for a third party to pursue a tender offer, change in control or takeover attempt that is opposed by our management or our board of directors. Stockholders who might desire to participate in these types of transactions may not have an opportunity to do so, even if the transaction is favorable to them. These anti-takeover provisions could substantially impede your ability to benefit from a change in control or change our management and board of directors and, as a result, may adversely affect the market price of our common stock and your ability to realize any potential change of control premium.

If securities and industry analysts publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend, in part, on the research and reports that securities and industry analysts publish about us and our business. Securities and industry analysts do not currently, and may never, cover the Company. If securities and industry analysts do not commence coverage of the Company, the trading price of our stock would likely be negatively impacted. If one or more of the securities or industry analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts cease coverage of the Company or fail to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

Open Lending leases its office space, which consists of 25,368 square feet located in 1501 South MoPac Expressway, Austin, TX 78746 (Suite 450). Open Lending's lease runs for a period of 100 months commencing on October 1, 2020. Open Lending believes its current office space is sufficient to meet its needs until the expiration of its lease.

Item 3. *Legal Proceedings*

As of the date of this Annual Report on Form 10-K, we were not a party to any material legal proceedings. In the future, we may become party to legal matters and claims arising in the ordinary course of business, the resolution of which we do not anticipate would have a material adverse impact on its financial position, results of operations or cash flows.

Item 4. *Mine Safety Disclosures*

None.

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Market Information

Our common stock is traded on the NASDAQ under the symbol "LPRO." As of March 12, 2021 the closing price of our common stock on the NASDAQ was $40.04, and there were approximately 44 registered shareholders of record.

Underwritten Public Offering and Share Repurchase

On December 14, 2020, we completed an underwritten public offering of 9,500,000 shares of our common stock at a public offering price of $28.00 per share. All shares were sold by existing stockholders, including Nebula Holdings, LLC and its affiliates, Bregal Sagemount and certain executive officers of the Company. The selling stockholders also granted the underwriters a 30-day option to purchase up to 1,425,000 additional shares of common stock. We did not sell any shares and did not receive any of the proceeds of the offering.

Pursuant to a Stock Repurchase Agreement, dated as of December 7, 2020, between Open Lending and the selling stockholders, we repurchased from the selling stockholders an aggregate number of 1,395,089 shares of our common stock totaling $37.5 million at the same per share price paid by the underwriters to the selling stockholders in the offering.

Dividend Policy

We have no current plans to pay cash dividends on our common stock. The declaration, amount and payment of any future dividends will be at the sole discretion of our board of directors. Our board of directors may take into account general and economic conditions, our financial condition and operating results, our available cash, current and anticipated cash needs, capital requirements, contractual, legal, tax and regulatory restrictions, implications on the payment of dividends by us to our stockholders or by our subsidiary to us and such other factors as our board of directors may deem relevant. In addition, the terms of our existing financing arrangements restrict or limit our ability to pay cash dividends. Accordingly, we may not pay any dividends on our common stock in the foreseeable future.

Securities Authorized for Issuance under Equity Compensation Plans

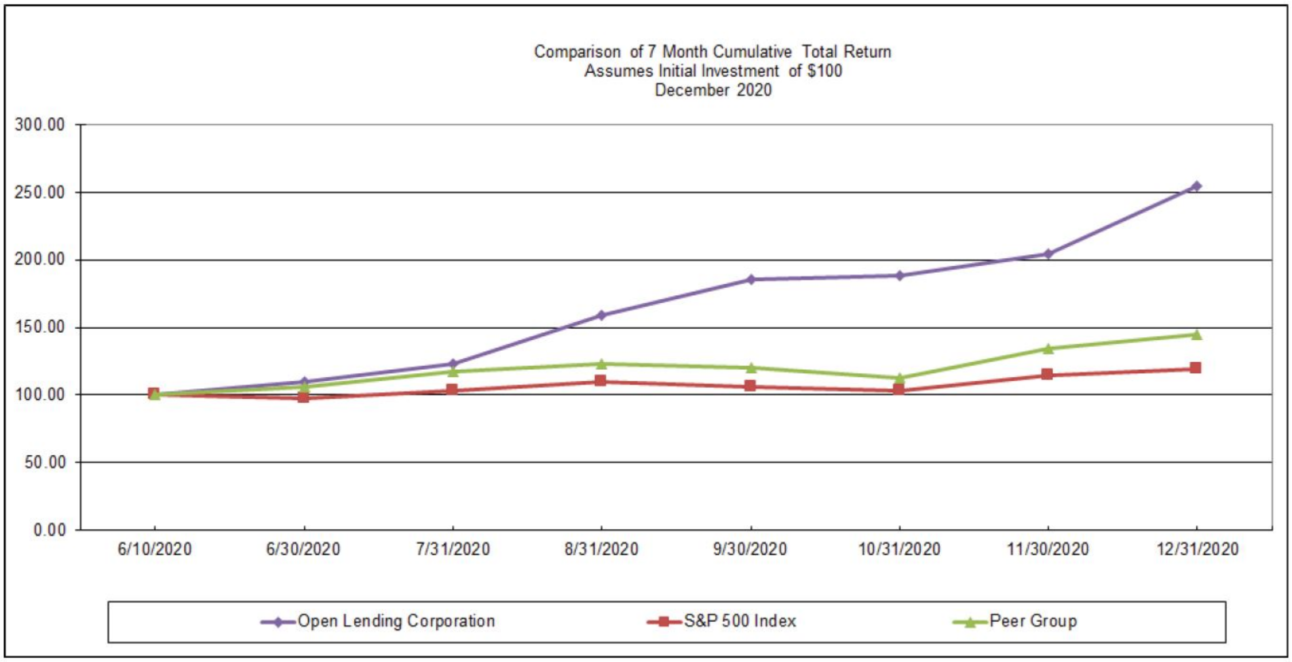
The information concerning our equity compensation plans is incorporated by reference herein to the section in our definitive Proxy Statement for the 2021 Annual Meeting of Stockholders ("2021 Proxy Statement") entitled "Equity Compensation Plan Information."

The following shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference into any of our other filings under the Securities Exchange Act of 1934, as amended, or the Securities Act of 1933, as amended.

Stock Performance Graph

The stock performance graph below shows the cumulative total stockholder return of an investment of $100 at the market close on June 10, 2020, which was the Closing Date of the Business Combination, in (i) our common stock, (ii) the S&P 500 Index, and (iii) common stock of a selected group of peer issuers (the "Peer Group"). The Peer Group tracks the weighted average stock price performance of equity securities of nine companies in our industry, including PayPal Holdings, Inc., Verisk Analytics, Inc., Equifax Inc., FleetCor Technologies, Inc., Jack Henry & Associates, Inc., Repay Holdings Corporation, Square, Inc., TransUnion, and WEX Inc.. Data for the S&P 500 Index and the Peer Group assumes reinvestment of dividends. Our common stock had a closing stock price of $13.75 on June 10, 2020, and the stock price performance shown in the graph below is based on historical data and is not indicative of, nor intended to forecast, future stock price performance of our stock.

The following graph and its related information is not "soliciting material," is not deemed "filed" with the SEC, and is not to be incorporated by reference into any filing of ours under the Securities Act of 1933, as amended or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing.


Comparison of 7 Month Cumulative Total Return
Assumes Initial Investment of $100
December 2020
300.00
250.00
200.00
150.00
100.00
50.00
0.00
6/10/2020
6/30/2020
7/31/2020
8/31/2020
9/30/2020
10/31/2020
11/30/2020
12/31/2020
Open Lending Corporation
S&P 500 Index
Peer Group

Item 6. ***RESERVED.***

This item is no longer required as we have elected to early adopt the changes to Item 301 of Regulation S-K.

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements can be identified by the use of predictive, future-tense or forward-looking terminology, such as "believes," "anticipates," "expects," "estimates," "plans," "may," "intends," "will," or similar terms. Investors are cautioned that any forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements. The following discussion should be read together with the consolidated financial statements and notes to those financial statements included elsewhere in this report.

Business Overview

We are a leading provider of lending enablement and risk analytics to credit unions, regional banks and OEM Captives. Our clients, collectively referred to herein as automotive lenders, make automotive consumer loans to underserved near-prime and non-prime borrowers by harnessing our risk-based pricing models, powered by our proprietary data and real-time underwriting of automotive loan default insurance coverage from insurers. Since our inception in 2000, we have facilitated over $9.2 billion in automotive loans, accumulating over 20 years of proprietary data and developing over two million unique risk profiles. We currently cater to approximately 355 active automotive lenders.

We specialize in risk-based pricing and modeling and provide automated decision-technology for automotive lenders throughout the United States. We believe that we address the financing needs of near-prime and non-prime borrowers, or borrowers with a credit bureau score between 560 and 699, who are underserved in the automotive finance industry. Traditional lenders focus on prime borrowers, where an efficient market has developed with interest rate competition that benefits borrowers. Independent finance companies focus on sub-prime borrowers. Borrowers that utilize the near-prime and non-prime automotive lending market have fewer lenders focused on loans with longer terms or higher advance rates. As a result, many near-prime and non-prime borrowers turn to sub-prime lenders, resulting in higher interest rate loan offerings than such borrower's credit profile often merits or warrants. We seek to make this market more competitive, resulting in more attractive loan terms.

Our flagship product, LPP, enables automotive lenders to make loans that are largely insured against losses from defaults. We have been developing and advancing the proprietary underwriting models used by LPP for approximately 20 years. We believe LPP provides significant benefits to our growing ecosystem of automotive lenders, automobile dealers and insurers.

A key element of LPP is the ability to facilitate risk-based interest rates that are appropriate for each loan and lender and electronically submitted to our automotive lenders within approximately five seconds after we receive a loan application. Our interest rate pricing is customized to each automotive lender, reflecting the cost of capital, loan servicing costs, loan acquisition costs, expected recovery rates and target return on assets of each automotive lender. Using our risk models, we project monthly loan performance results, including expected losses and prepayments for automotive lenders that use LPP. The product of this process is a risk-based interest rate, inclusive of elements to recover all projected costs, program fees and insurance premiums, given the risk of the loan, to return a targeted return on asset goal.

We believe that our market opportunity is significant. The near-prime and non-prime automotive loan market is $250 billion annually, resulting in an approximately $14.4 billion annual revenue opportunity. We are currently serving less than 1% of this market, providing a significant growth opportunity.

Executive Overview

We facilitate certified loans and have achieved financial success by increasing our penetration of the near-prime and non-prime automotive loan market while diversifying our customer base and refining our data analysis capabilities.

During the year ended December 31, 2020, we facilitated 94,226 certified loans, representing an increase of 20.1% from 78,434 in the year ended December 31, 2019, which in turn increased by 38.3% from 56,705 in the year ended December 31, 2018.

Total revenue was $108.9 million for the year ended December 31, 2020, representing an increase of 17.3% from $92.8 million in the year ended December 31, 2019, which in turn increased by 77.9% from $52.2 million in the year ended December 31, 2018. Revenue increased by $19.2 million as a result of the adoption of ASC 606 for the year ended December 31, 2019. Prior period annual results have not been restated so this lack of comparability should be considered in reviewing this discussion and analysis.

Operating income was $56.7 million for the year ended December 31, 2020, representing a decline of 9.4% from $62.6 million in the year ended December 31, 2019, which in turn increased by 119.9% from $28.5 million in the year ended December 31, 2018.

Net loss was $(97.6) million for the year ended December 31, 2020, representing a decrease of (256.0)% from net income of $62.5 million in the year ended December 31, 2019, which in turn increased by 121.2% from $28.3 million in the year ended December 31, 2018.

Adjusted EBITDA was $69.5 million for the year ended December 31, 2020, representing an increase of 7.1% from $64.9 million in the year ended December 31, 2019, which in turn increased by 107.4% from $31.3 million in the year ended December 31, 2018.

Information regarding use of Adjusted EBITDA, a non-GAAP measure, and a reconciliation of Adjusted EBITDA to net income, the most comparable GAAP measure, is included in *"Non-GAAP Financial Measures."*

Highlights

The table below summarizes the total dollar-value of insured loans we facilitated, the number of new contracts we signed with automotive lenders and the number of OEM Captive relationships we entered into for the years ended December 31, 2020, 2019 and 2018:

	Years ended December 31,		
	2020	**2019**	**2018**
	(in thousands, except number of contracts or OEM Captives)		
Value of insured loans facilitated (1)	$ 2,126,327	$ 1,755,175	$ 1,246,551
Number of contracts signed with automotive lenders	55	77	58
Number of OEM Captives contracted	—	2	—

(1) Value of insured loans are calculated as the total original loan amount with active institutions as of the end of each reporting period.

Key Performance Measures

We review several key performance measures, discussed below, to evaluate business and results, measure performance, identify trends, formulate plans and make strategic decisions. We believe that the presentation of such metrics is useful to our investors and counterparties because they are used to measure and model the performance of companies such as Open Lending, with recurring revenue streams.

Automotive Loans

We refer to "automotive loans" as the number of loans facilitated through LPP during a given period. Additionally, we refer to loans with a one-time upfront payment as "single-pay" loans and those paid over twelve months in monthly installments as "monthly-pay" loans.

Average Program Fee

We define "average program fee" as the total program fee billed for a period divided by the number of certified loans in that period.

Insurers' Aggregate Underwriting Profit

We define "insurers' aggregate underwriting profit" as the total underwriting profit expected to be received by insurers over the expected life of the insured loans.

Insurers' Annual Earned Premium

We define "insurers' annual earned premium" as the total insurance premium earned by insurers in a given period.

Insurers' Average Earned Premium Per Loan

We define "insurers' average earned premium per loan" as the total single premium equivalent insurance premium written in a period by insurers divided by the number of certified loans in that period.

Recent Developments

Underwritten Public Offering and Share Repurchase

On December 14, 2020, we completed an underwritten public offering of 9,500,000 shares of our common stock at a public offering price of $28.00 per share. All shares were sold by existing stockholders, including Nebula Holdings, LLC and its affiliates, Bregal Sagemount and certain executive officers of the Company. The selling stockholders also granted the underwriters a 30-day option to purchase up to 1,425,000 additional shares of common stock. We did not sell any shares and did not receive any of the proceeds of the offering.

Pursuant to a Stock Repurchase Agreement, dated as of December 7, 2020, between Open Lending and the selling stockholders, we repurchased from the selling stockholders an aggregate number of 1,395,089 shares of our common stock totaling $37.5 million at the same per share price paid by the underwriters to the selling stockholders in the offering.

Business Combination

Nebula, our predecessor, was originally incorporated in Delaware on October 2, 2017 as a special purpose acquisition company for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination with one or more businesses. Nebula consummated the Business Combination on June 10, 2020.

Immediately upon the Closing, Open Lending, LLC became a direct wholly owned subsidiary of ParentCo, and ParentCo changed its name to Open Lending Corporation. The Company is now listed on NASDAQ under the symbol "LPRO."

The aggregate consideration for the Business Combination was $1.0 billion, consisting of $463.8 million in cash and 51,909,655 shares of our common stock valued at $10.00 per share totaling $519.1 million. The terms of the Business Combination Agreement contain customary representations and warranties, covenants, closing conditions, termination fee provisions and other terms relating to the Business Combination and the other transactions contemplated.

Credit Agreement

On March 11, 2020, we entered into the Credit Agreement. The Term Loan in a principal amount of $170.0 million was funded on March 12, 2020. The proceeds of the Term Loan were used to, among other things, finance a distribution to our equity investors prior to the consummation of the Business Combination. The Term Loan bears interest at LIBOR plus 6.50% (subject to a 1% LIBOR floor) or the base rate plus 5.50%. Our obligations under the Credit Agreement are guaranteed by all of our subsidiaries and secured by substantially all of the assets of Open Lending and its subsidiaries, in each case, subject to certain customary exceptions. The Term Loan has a maturity date of March 11, 2027. Subject to the terms and conditions set forth in the Credit Agreement, we may be required to make certain mandatory prepayments prior to maturity. Voluntary prepayments and certain mandatory prepayments may be subject to certain prepayment premiums in the first year after the date thereof.

The Credit Agreement contains affirmative and negative covenants customarily applicable to senior secured credit facilities, including, among other things, customary limitations on the incurrence of indebtedness and liens, certain intercompany transactions and other investments, dispositions of assets, issuance of certain units, repayment of other indebtedness, redemptions of units and payment of dividends. The Credit Agreement also contains a maximum total net leverage ratio financial covenant that is tested quarterly and calculated based on the ratio of our Adjusted EBITDA (as defined in the Credit Agreement) to funded indebtedness. The maximum total net leverage ratio begins at 4.75 to 1.0 and then gradually decreases from year-to-year down to 2.5 to 1.0 on or after June 30, 2026. The Credit Agreement also contains customary events of default, at times subject to thresholds and grace periods (among others), including payment default, covenant default, cross default to other material indebtedness, and judgment defaults.

Non-Liquidating Cash Distribution

On March 24, 2020, Open Lending, LLC's Board of Managers approved a non-liquidating cash distribution to its unitholders' in the amount of $135.0 million. *See "Liquidity and Capital Resources—Unitholders' Distribution.*"

Coronavirus Outbreak

The recent outbreak of the novel coronavirus COVID-19, which was declared a pandemic by the World Health Organization on March 11, 2020 and declared a National Emergency by the President of the United States on March 13, 2020, has led to adverse impacts on the U.S. and global economies and created uncertainty regarding potential impacts on our operating results, financial condition and cash flows. The extent of the impact of COVID 19 on our operational and financial performance will depend on certain developments, including the duration and continued spread of the disease, the impact on our revenues which are generated with automobile lenders and insurance company partners and driven by consumer demand for automobiles and automotive loans, extended closures of businesses, continued high unemployment and the overall impact on our customer behavior, all of which are uncertain and cannot be predicted. We have seen a reduction in loan applications and certified loans throughout most of 2020. As consumers and lenders have adjusted to the pandemic, application and certification levels have increased, but are not back to pre-pandemic levels when comparing existing lending institutions to the same lending institution's prior year performance. Lenders' forbearance programs, government stimulus packages, extended unemployment benefits and other government assistance via the Cares Act passed on March 27, 2020 have resulted in a reduction in expected defaults since the onset of the pandemic. As these programs' accessibility diminishes, defaults may increase. The potential increase in defaults may impact our revenues and subsequent recovery as the automotive finance industry and overall economy recover. We continue to closely monitor the current macro environment, particularly the impact of the recent COVID-19 pandemic on monetary and fiscal policies.

Redemption of Public Warrants

As of October 19, 2020, we redeemed all of our outstanding public warrants that had not been exercised as of October 13, 2020, which resulted in the exercise of 9,160,776 warrants for proceeds to us of $105.3 million and the redemption of 5,883 public warrants at a redemption price of $0.01 per warrant.

Key Factors Affecting Operating Results

Our future operating results and cash flows are dependent upon a number of opportunities, challenges and other factors, including the growth in the number of financial institutions and transaction volume, competition, profit share assumptions and industry trends and general economic conditions.

Key factors affecting our operating results include the following:

Growth in the Number of Financial Institutions

The growth trend in active automotive lenders using LPP is a critical variable directly affecting revenue and financial results. It influences the number of loans funded on LPP and, therefore, the fees that we earn and the cost of the services that we provide. Growth in our active automotive lender relationships will depend on our ability to retain existing automotive lenders, add new automotive lenders and expand to new industry verticals.

Competition

We face competition to enroll and maintain automotive lenders as well as competition to fund near-prime and non-prime auto loans. For LPP, which combines lending enablement, risk analytics, near-prime and non-prime auto loan performance data, real-time loan decisioning, risk-based pricing and auto loan default insurance, we do not believe there are any direct competitors. The emergence of direct competitors, providing risk, analytics and loss mitigation, which are core elements of our business, could materially impact our ability to sign and maintain automotive lenders' customers. The near-prime and non-prime lending market is highly fragmented and competitive. We face competition from a diverse landscape of consumer lenders, including traditional banks and credit unions, as well as alternative technology-enabled lenders. The emergence of other insurers, in competition with our insurers, could materially impact our business. Increased competition for loans, which reduce the ability of our automotive lenders to source loan application flow and or capture loans, could materially adversely impact our business.

Profit Share Assumptions

We rely on assumptions to calculate the value of profit share revenue, which is our share of insurance partners' underwriting profit. To the extent these assumptions change, our profit share revenue will be adjusted. Please refer to "*Critical Accounting Policies and Estimates*" for more information on these assumptions.

Industry Trends and General Economic Conditions

Our results of operations have in the past been fairly resilient to economic downturns but in the future may be impacted by the relative strength of the overall economy and its effect on unemployment, consumer spending and consumer demand for automotive products. As general economic conditions improve or deteriorate, the amount of disposable income consumers have tends to fluctuate, which in turn impacts consumer spending levels and the willingness of consumers to take out loans to finance purchases. Specific economic factors such as interest rate levels, changes in monetary and related policies, market volatility, consumer confidence, the impact of the pandemic crisis and, particularly, the unemployment rate also influence consumer spending and borrowing patterns. At the end of first quarter 2020, changes in facts and circumstances and general market conditions from the COVID-19 pandemic resulted in lower expectations of future operating results, and in response, we lowered our initial anticipated revenue and profit share on historic business. In the following quarters of 2020, we have adopted a more favorable near-term outlook as a result of better than anticipated performance through the year-end.

Concentration

We have not historically had significant concentration risk in our client base, given that our lending clients are distributed across the country with our top ten clients accounting for approximately 30% of total program fees over the last three years. Going forward, however, we expect significant growth in loan volume from OEM Captives relative to that of other automotive lenders. Therefore, we anticipate concentrated risk for some period of time. Additionally, our largest insurance partner accounted for the vast majority of our profit share and claims administration service fee revenue during the years ended December 31, 2020, 2019 and 2018. Termination or disruption of this relationship could materially adversely impact our revenue.

Basis of Presentation

We conduct business through one operating segment and we operate in one geographic region, the United States. See Note 2 "*Summary of Significant Accounting and Reporting Policies*" of the accompanying consolidated financial statements for more information.

Components of Results of Operations

Total Revenues

Revenue. Our revenue is generated through three streams: program fees paid to us by lenders, profit share and claims administration service fees paid to us by insurance partners.

Program fees. Program fees are paid by automotive lenders for use of our LPP and analytics. These fees are based on a percentage of each certified loan's original principal balance and are recognized as revenue by us upfront upon receipt of the loan by the consumer. The fee percentage rate varies by type of loan. For loans with a one-time upfront payment, there is a sliding scale of rates representing volume discounts to the lender with fees capped at $600 per loan. This cap may vary for certain large volume lenders. For loans with 12 monthly equal installments, the fee paid by the lender is a flat 3.0% of the total amount of the loan and is not capped.

Profit share. Profit share represents our participation in the underwriting profit of our third-party insurance partners who provide lenders with credit default insurance on loans the lenders make using LPP. We receive a percentage of the aggregate monthly insurance underwriting profit. Monthly insurance underwriting profit is calculated as the monthly earned premium less expenses and losses (including reserves for incurred but not reported losses), with losses accrued and carried forward for future profit share calculations.

Claims administration service fees. Claims administration service fees are paid to us by third-party insurers for credit default insurance claims adjudication services performed by our subsidiary IAS on its insured servicing portfolio. The administration fee is equal to 3.0% of the monthly insurance premium for as long as the loan remains outstanding.

Cost of Services and Operating Expenses

Cost of services. Cost of services primarily consists of fees paid to third party resellers for lead-generation efforts, compensation and benefits expense relating to employees engaged in lenders' services and claims administration activities, fees paid for actuarial services related to the development of the monthly premium program and fees for integration with loan origination systems of automotive lenders. We generally expect cost of services to increase in absolute dollars as the total number of certified loans continues to grow, but remain relatively constant in the near to immediate term as a percentage of our program fee revenue.

General and administrative expenses. General and administrative expenses are comprised primarily of expenses relating to employee compensation and benefits, share-based compensation, travel, meals and entertainment expenses, IT expenses and professional and consulting fees. In the near term we expect our general and administrative expenses to increase in absolute dollar terms and as a percentage of revenue as we implement the internal control and compliance procedures required of public companies. In the intermediate term, we expect our general and administrative expenses to continue to increase in absolute dollars as the total number of certified loans continues to grow.

Selling and marketing expenses. Selling and marketing expenses consist primarily of compensation and benefits of employees engaged in selling and marketing activities. We generally expect our selling and marketing expenses to increase in absolute dollars as the total number of certified loans continues to grow, but remain constant in the near to immediate term as a percentage of our program fee revenue.

Research and development expenses. Research and development expenses consist of employee compensation and benefits expenses for employees engaged in ongoing development of its software technology platform. We generally expect our research and development expenses to increase in absolute dollars as our business continues to grow.

Other Income (Expense)

Change in fair value of contingent consideration. Change in fair value of contingent consideration reflects the non-cash impact of changes in the fair value of Company common stock issued as contingent consideration in connection with our Business Combination on June 10, 2020. The fair value of contingent consideration is based on a Monte Carlo simulation of the Company's common stock as compared to certain market share price milestones, and is primarily based on our peer group due to our limited history, as well as our future implied volatility, a significant unobservable input. The change in the fair value of contingent consideration during the twelve months ended December 31, 2020 was driven by the change in fair value from June 10, 2020 through the date immediately before each tranche of contingent consideration shares vested.

Interest expense. Interest expense includes interest payments and the amortization of the debt issuance costs in connection with the notes payable.

Other Income (Expense). For the year ending December 31, 2020, other income (expense) includes a $(4.3) million non-cash charge related to a change in the measurement of our Tax Receivable Agreement liability as a result of changes in our blended state tax rate. Please see Note 18 "*Income Taxes.*" During the twelve months ended December 31, 2019 and 2018, other income (expense) primarily consists of sponsorship and registration fees for our annual Executive Leadership Conference.

Results of Operations

The following table sets forth selected consolidated statements of income data for the years ended December 31, 2020, 2019 and 2018:

	Years ended December 31,				
	2020	**% Change**	**2019**	**% Change**	**2018**
			(in thousands)		
Revenue					
Program fees	$ 43,995	20.0%	$ 36,667	46.4%	$ 25,044
Profit share	60,392	13.9%	53,038	113.6%	24,835
Claims administration service fees	4,505	43.4%	3,142	35.8%	2,313
Total revenue	**108,892**	**17.3%**	**92,847**	**77.9%**	**52,192**
Cost of services	9,786	25.4%	7,806	69.6%	4,603
Gross profit	**99,106**	**16.5%**	**85,041**	**78.7%**	**47,589**
Operating expenses					
General and administrative	32,584	136.6%	13,774	13.6%	12,125
Selling and marketing	7,841	4.8%	7,482	20.9%	6,188
Research and development	1,964	67.9%	1,170	45.9%	802
Operating income	**56,717**	**(9.4)%**	**62,615**	**119.9%**	**28,474**
Change in fair value of contingent consideration	(131,932)	—%	—	—%	—
Interest expense	(11,601)	3,502.8%	(322)	(5.6)%	(341)
Interest income	202	741.7%	24	84.6%	13
Other income (expense)	(4,377)	(2,321.8)%	197	15.9%	170
Income (loss) before income taxes	**(90,991)**	**(245.6)%**	**62,514**	**120.8%**	**28,316**
Provision (benefit) for income taxes	6,573	(22,010.0)%	(30)	(181.1)%	37
Net income (loss) and comprehensive income (loss)	**$ (97,564)**	**(256.0)%**	**$ 62,544**	**121.2%**	**$ 28,279**

Key Performance Measures

The following table set forth key performance measures for the years ended December 31, 2020, 2019 and 2018:

	Years ended December 31,				
	2020	**% Change**	**2019**	**% Change**	**2018**
			(earned premium in thousands)		
Certified loans	94,226	20.1 %	78,434	38.3 %	56,705
Single-pay	76,031	25.1 %	60,794	31.5 %	46,223
Monthly-pay	18,195	3.1 %	17,640	68.3 %	10,482
Average program fees	$ 467	(0.2)%	$ 468	5.9 %	$ 442
Single-pay	430	0.8 %	426	5.2 %	405
Monthly-pay	623	1.8 %	612	0.5 %	609
Insurance partners' annual earned premium	$ 151,006	44.2 %	$ 104,720	35.8 %	$ 77,101

Year Ended December 31, 2020 Compared to the Year Ended December 31, 2019

Revenue

	For Years Ended December 31,			
	2020	2019	$ Variance	% Change
		(in thousands)		
Program fees	**$ 43,995**	**$ 36,667**	**$ 7,328**	**20.0 %**
Profit share				
New certified loan originations	62,032	48,181	13,851	28.7 %
Change in estimated future revenues	(1,640)	4,857	(6,497)	(133.8) %
Total profit share	**60,392**	**53,038**	**7,354**	**13.9 %**
Claims administration service fees	**4,505**	**3,142**	**1,363**	**43.4 %**
Total revenue	**$ 108,892**	**$ 92,847**	**$ 16,045**	**17.3 %**

Total revenue increased by $16.0 million, or 17.3%, for the year ended December 31, 2020 as compared to the year ended December 31, 2019. The increase in total revenue was driven by an increase in anticipated profit share, program fees and claims administration service fee revenues on new originations.

Program fee revenue increased by $7.3 million, or 20.0%, for the year ended December 31, 2020 when compared to the year ended December 31, 2019. Despite the impact of the COVID-19 pandemic, certified loan volume was up by 20.1% for the year ended December 31, 2020, as compared to the prior year.

Profit share revenue increased by $7.4 million, or 13.9%, for the year ended December 31, 2020 when compared to the year ended December 31, 2019. This increase in profit share revenue was driven primarily by a $13.9 million increase in anticipated profit share from new originations during the current year as compared to 2019. Despite this increase in new business, our year to date results were negatively impacted by a $(1.6) million reduction in estimated future underwriting profit share for claims and premiums associated with business written in historic periods, primarily as a result of the economic slowdown attributable to the COVID-19 pandemic. This reduction in future profit share is a change in estimated variable consideration in accordance with ASC 606.

Revenue from claims administration service fees, which represents 3.0% of our insurance partners' annual earned premium, increased by $1.4 million, or 43.4%, for the year ended December 31, 2020 as compared to 2019 due to a 44.2% increase in total earned premium.

Cost of Services, Gross Profit and Gross Margin

	For Years Ended December 31,			
	2020	2019	$ Variance	% Change
		(in thousands)		
Revenue	$ 108,892	$ 92,847	16,045	17.3 %
Cost of services	9,786	7,806	1,980	25.4 %
Gross profit	**$ 99,106**	**$ 85,041**	**$ 14,065**	**16.5 %**
Gross margin	**91.0 %**	**91.6 %**		

Costs of services increased by $2.0 million, or 25.4%, for the year ended December 31, 2020 compared to the year ended December 31, 2019 primarily driven by an increase in fees paid to resellers, an increase in employee compensation and benefits expense and an increase in costs for actuarial services.

Gross profit increased by $14.1 million, or 16.5%, for the year ended December 31, 2020 as compared to the year ended December 31, 2019, driven by an increase in anticipated profit share, programs fees and claims administration revenues on new originations.

Operating Expenses, Operating Income and Operating Margin

	For Years Ended December 31,			
	2020	2019	$ Variance	% Change
		(in thousands)		
Revenue	**$ 108,892**	**$ 92,847**	**$ 16,045**	**17.3 %**
Gross profit	99,106	85,041	14,065	16.5 %
Operating expenses:				
General and administrative	32,584	13,774	18,810	136.6 %
Selling and marketing	7,841	7,482	359	4.8 %
Research and development	1,964	1,170	794	67.9 %
Operating income	**$ 56,717**	**$ 62,615**	**$ (5,898)**	**(9.4)%**
Operating margin	**52.1 %**	**67.4 %**		

General and administrative expenses increased by $18.8 million, or 136.6%, for the year ended December 31, 2020 when compared to the year ended December 31, 2019. The year ended December 31, 2020 includes $9.1 million in transaction bonuses awarded to key employees and directors of Open Lending, LLC and $2.2 million of non-cash charges incurred in connection with the accelerated vesting of share-based awards, which were incurred during the second quarter 2020, as a result of the Business Combination. In connection with the underwritten public offering by the selling stockholders during the fourth quarter, we incurred approximately $0.7 million in legal and professional fees. General and administrative expenses also reflect an increase of $2.1 million in employee compensation and benefits and $2.4 million in directors and officers liability insurance, in addition to $2.7 million in professional service fees associated with public filings and our implementation of enhanced internal control and compliance procedures required of public companies; offset by a decline of $1.2 million in travel expenses due to the COVID-19 pandemic.

Selling and marketing expenses increased by $0.4 million, or 4.8%, for the year ended December 31, 2020 as compared to the year ended December 31, 2019 primarily due to an increase of $0.6 million in employee compensation and benefits expense to sales and account management employees, driven by increased sales; partially offset by a $0.2 million decrease in marketing and promotion expenses.

Research and development expenses increased by $0.8 million, or 67.9%, for the year ended December 31, 2020 as compared to the year ended December 31, 2019 due to an increase in headcount costs driven by an increase in engineering personnel to support LPP.

Operating income for the year ended December 31, 2020, declined by $5.9 million, or 9.4%, as compared to the year ended December 31, 2019, which was primarily attributable to the increase in operating expenses associated with the Business Combination including, the $9.1 million transaction bonuses, $4.0 million in employee compensation and benefits related to increased headcount as we expand our business, $2.4 million for directors and officers liability insurance, $2.2 million due to the accelerated recognition of share-based compensation, and $3.4 million in professional service fees. The increase in operating expenses was partially offset by the increase of $14.1 million in gross profit as discussed above, and a $1.2 million decrease in travel expenses.

Contingent Consideration

During the year ended December 31, 2020, we recorded $131.9 million in non-cash charges for the change in the fair value of contingent consideration from June 10, 2020 through the vesting of the contingent consideration.

Interest Expense

Interest expense during the year ended December 31, 2020, increased by $11.3 million as compared to the prior year, as a result of entering into our term loan agreement in first quarter 2020.

Other Income (Expense)

For the year ending December 31, 2020, other income (expense) includes a $(4.3) million non-cash charge related to a change in the measurement of our Tax Receivable Agreement liability as a result of changes in our blended state tax rate. Please see

Note 18 "*Income Taxes.*" During the twelve months ended December 31, 2019 and 2018, other income (expense) primarily consists of sponsorship and registration fees for our annual Executive Leadership Conference.

Income Taxes

Our effective tax rate for the year ended December 31, 2020 was (7.2)%, as compared to an effective tax rate of (0.1)% for the year ended December 31, 2019. The change in the effective tax rate for both comparative periods is due primarily to the taxable entity structure adopted in connection with the Business Combination that was consummated on June 10, 2020. Also, in relation to the Business Combination, we incurred significant non-deductible expenses including, but not limited to, the change in fair value of contingent consideration.

Net Income (Loss)

For the reasons discussed above, we recorded a net loss of $(97.6) million during the year ended December 31, 2020, as compared to a net income of $62.5 million during the year ended December 31, 2019.

Adjusted EBITDA

For the year ended December 31, 2020, Adjusted EBITDA increased by $4.6 million, or 7.1%, as compared to the year ended December 31, 2019. Adjusted EBITDA margin for the year ended December 31, 2020, decreased to 63.8% as compared to 69.9% for the year ended December 31, 2019. The decline in Adjusted EBITDA during the year ended December 31, 2020 as compared to the previous year reflects a $(1.6) million reduction in estimated future underwriting profits primarily as a result of the economic impact of the COVID-19 pandemic. Our 2020 results were also impacted by an increase in general and administrative expenses as we implement the internal control and compliance procedures required of public companies.

Year Ended December 31, 2019 Compared to the Year Ended December 31, 2018

Revenue

Results presented for the year ended December 31, 2019 reflect the impact of our adoption of Accounting Standards Update 2014-09, "Revenue from Contracts with Customers" (Topic 606) ("ASC 606") and related cost capitalization guidance, which was adopted by us on January 1, 2019, using the modified retrospective transition method. The adoption of ASC 606 resulted in our recognizing as revenue the share of our insurance partners' aggregate underwriting profit to which we expect to be entitled in the future. We therefore makes assumptions about future premiums and claims to be experienced on our insurance partner's portfolios. Were these assumptions to differ from actual premium and claims, we would revise our expectations relating to business underwritten by our insurance partners in historic periods. These revisions, if positive, are also booked as revenue or, if negative, are netted against revenue. In application of the modified retrospective transition method, our prior period results have not been restated to reflect the impact of ASC 606. This lack of comparability should be considered in reviewing this discussion and analysis. Refer to *Notes to Consolidated Financial Statements* for further information on the impact of the adoption of ASC 606.

The following table provides the components of our total revenue for the years ended December 31, 2019 and 2018:

	For Years Ended December 31,			
	2019	2018	$ Variance	% Change
		(in thousands)		
Program fees	$ 36,667	$ 25,044	$ 11,623	46.4 %
Profit share	53,038	24,835	28,203	113.6 %
Claims administration service fees	3,142	2,313	829	35.8 %
Total revenue	**$ 92,847**	**$ 52,192**	**$ 40,655**	**77.9 %**

Total revenue increased by $40.7 million or 77.9% for the year ended December 31, 2019 as compared to the year ended December 31, 2018 due to a 38.3% increase in certified loans, along with an overall 1.8% increase in average loan amount and a $19.2 million increase in profit share revenue that resulted from the adoption of ASC 606. As our prior period results have not been restated, the comparability to the year ended December 31, 2018 is impacted.

Program fees revenue increased by $11.6 million, or 46.4%, for the year ended December 31, 2019 when compared to the year ended December 31, 2018, primarily driven by a 38.3% increase in certified loans. Program fee revenue for the year ended

December 31, 2019 also benefited from higher average program fees earned on single-pay certified loans, which increased by 5.2% as compared to the year ended December 31, 2018, and a 68.3% increase in monthly-pay certified loans, which have higher average program fees per loan. As a result, program fee revenue from monthly-pay certified loans increased to represent 29.4% of total program fee revenue in the year ended December 31, 2019, compared to 25.5% for the year ended December 31, 2018. In future periods we expect a significant increase in certified loans from OEM Captives, which would increase the proportion of single-pay certified loans.

Profit share revenue increased by $28.2 million, or 113.6%, for the year ended December 31, 2019 when compared to the year ended December 31, 2018 due to 38.3% growth in certified loans, which translated into 35.8% growth in our insurance partners' annual earned premium, and $19.2 million, or 77.4%, due to the adoption of ASC 606. Of the $19.2 million increase resulting from the adoption of ASC 606, $14.4 million relates to the recognition of the share of our insurance partners' aggregate underwriting profit to which we expect to be entitled. The remaining $4.9 million relates to the revision of our expectations for claims and premiums related to business written in historic periods.

Revenue from claims administration service fees, which represents 3.0% of our insurance partners' annual earned premium, increased by $0.8 million, or 35.8% for the year ended December 31, 2019 as compared to the year ended December 31, 2018 due to a 35.8% increase in total earned premium and a 663.5% increase in earned premium from CNA pursuant to the CNA Agreement.

Cost of Services, Gross Profit and Gross Margin

The following table shows our revenue, cost of services, gross profit and gross margin for the years ended December 31, 2019 and 2018:

	For Years Ended December 31,			
	2019	2018	$ Variance	% Change
		(in thousands)		
Revenue	$ 92,847	$ 52,192	$ 40,655	77.9 %
Cost of services	7,806	4,603	3,203	69.6 %
Gross profit	**$ 85,041**	**$ 47,589**	**$ 37,452**	**78.7 %**
Gross margin	**91.6 %**	**91.2 %**		

Costs of services increased by $3.2 million, or 69.6%, for the year ended December 31, 2019 compared to the year ended December 31, 2018 primarily driven by an increase in fees paid to resellers, first-time costs associated with credit risk evaluation, an increase in employee compensation and benefits expense and an increase in costs for actuarial services.

Gross profit increased by $37.5 million, or 78.7% for the year ended December 31, 2019 as compared to the year ended December 31, 2018, due to organic revenue growth and the impact of adopting ASC 606; offset by the 69.6% increase in cost of services. For the same reasons, gross margin increased to 91.6% for the year ended December 31, 2019 as compared to 91.2% for the year ended December 31, 2018.

Operating Expenses, Operating Income and Operating Margin

The following table shows revenue, the components of our operating expenses, operating income and operating margin for the years ended December 31, 2019 and 2018:

	For Years Ended December 31,			
	2019	2018	$ Variance	% Change
		(in thousands)		
Revenue	**$ 92,847**	**$ 52,192**	**$ 40,655**	**77.9 %**
Gross profit	85,041	47,589	37,452	78.7 %
Operating expenses:				
General and administrative	13,774	12,125	1,649	13.6 %
Selling and marketing	7,482	6,188	1,294	20.9 %
Research and development	1,170	802	368	45.9 %
Operating income	**$ 62,615**	**$ 28,474**	**$ 34,141**	**119.9 %**
Operating margin	**67.4 %**	**54.6 %**		

General and administrative expenses increased by $1.6 million, or 13.6% for the year ended December 31, 2019 when compared to the year ended December 31, 2018 primarily due to an increase in employee compensation and benefits expenses, driven by an increase in headcount, an increase in travel, meals and entertainment costs, an increase in IT costs, and an increase in professional and consulting fees. These increases were partially offset by a decline in share-based compensation expense and a decline in business development expenses. In the short term, we expect to experience an increase in its general & administrative expenses as we implement the internal control and compliance procedures required of public companies.

Selling and marketing expenses increased by $1.3 million, or 20.9%, for the year ended December 31, 2019 as compared to the year ended December 31, 2018 primarily due to an increase in employee compensation and benefits expense due to increased sales activity, partially offset by a decline in share-based compensation and a decline in marketing expenses.

Research and development expenses increased by $0.4 million, or 45.9%, for the year ended December 31, 2019 as compared to the year ended December 31, 2018 due to an increase in headcount costs related to an increase in engineering personnel.

Operating income for the year ended December 31, 2019, increased by $34.1 million, or 119.9% as compared to the year ended December 31, 2018 primarily due to the aforementioned 78.7% increase in gross profit, offset primarily by the 13.6% increase in general administrative expenses and the 20.9% increase in selling and marketing expenses. As a result of the above, operating margin increased from 54.6% for the year ended December 31, 2018 to 67.4% for the year ended December 31, 2019.

Net Income

For the reasons discussed above and considering the immaterial impact of other expenses and income tax for the year, our net income for the year ended December 31, 2019 increased by $34.3 million or 121.2% as compared to the year ended December 31, 2018.

Adjusted EBITDA

For the year ended December 31, 2019, Adjusted EBITDA increased by $33.6 million or 107.4% as compared to the year ended December 31, 2018, as a result of the 121.2% increase in net income, offset by a smaller adjustment for share-based compensation, which decreased by 22.9%. For the same reasons, Adjusted EBITDA margin for the year ended December 31, 2019 increased to 69.9% as compared to 60.0% in the year ended December 31, 2018. Please see "*Non-GAAP Financial Measures"* for a reconciliation of Adjusted EBITDA to net income.

Liquidity and Capital Resources

Cash Flow and Liquidity Analysis

We assesses liquidity primarily in terms of our ability to generate cash to fund operating and financing activities. A significant portion of our cash from operating activities are derived from our profit share arrangements with our insurance partners, which are subject to judgements and assumptions and are, therefore, subject to variability. Refer to *"Critical Accounting Policies and Estimates*" and "*Risk Factors*" for a full description of the related estimates, assumptions, and judgments.

The following table provides a summary of cash flow data:

	Years ended December 31,		
	2020	2019	2018
		(in thousands)	
Net cash provided by operating activities	$ 24,640	$ 41,762	$ 28,601
Net cash used in investing activities	$ (1,196)	$ (99)	$ (106)
Net cash provided by (used in) financing activities	$ 70,806	$ (44,901)	$ (21,376)

Cash Flows from Operating Activities

Our cash flows provided by operating activities primarily consists of operating income and adjustments for net changes in operating assets and liabilities, primarily changes in our accounts receivable, prepaid expenses, contract assets, accounts payable and accrued expenses.

Our net cash from operating activities for the year ended December 31, 2020 was $24.6 million. For the year ended December 31, 2020, net cash provided by operating activities was primarily attributable to income excluding the impact of fair value adjustment of contingent consideration as well as increased payments collected from customers on account receivables; partially offset by a $26.4 million increase in contract assets.

For the year ended December 31, 2019, net cash provided by operating activities was $41.8 million. This cash provided was primarily from an increase in net income. Cash provided by operating activities also resulted from $2.0 million in share-based compensation, which was offset by a $21.7 million increase in contract assets due to the ASC 606 adoption, $1.8 million increase in accounts receivable, and a $0.8 million increase in prepaid expenses.

For the year ended December 31, 2018, net cash provided by operating activities was $28.6 million. This cash provided was primarily from an increase in net income. Cash provided by operating activities also resulted from $2.5 million in share-based compensation, which was offset by a $2.6 million change in unbilled revenue, a $0.4 million change in accounts receivable, and a $0.5 million change in prepaid expenses.

Net cash payments on notes payable for the years ended December 31, 2020, 2019 and 2018 related to our indebtedness totaled $6.5 million, $2.5 million and $2.5 million, respectively. Our net cash from operating activities for the years ended December 31, 2020, 2019 and 2018 was $24.6 million, $41.8 million and $28.6 million, respectively. Accordingly, our net cash from operating activities for the years ended December 31, 2020, 2019 and 2018 was sufficient to cover these payments.

Cash Flows from Investing Activities

For the years ended December 31, 2020, 2019 and 2018, net cash used in investing activities was $1.2 million, $0.1 million and $0.1 million, respectively. This cash was used primarily for purchases of furniture and equipment.

Cash Flows from Financing Activities.

Our cash flows provided by and used in financing activities primarily consist of proceeds from issuance of long-term debt and the associated debt issuance cost, repayment of notes payable, distributions to Open Lending, LLC's unitholders, share repurchases, proceeds from stock warrant exercise transactions and our equity recapitalization.

For the year ended December 31, 2020, net cash provided by financing activities was $70.8 million. The cash inflow includes $159.9 million in net proceeds associated with our term loan secured through a credit agreement entered into March 11, 2020, and $105.3 million in proceeds received in connection with stock warrant exercise transactions. The cash used primarily consisted of a $135.6 million distribution to Open Lending, LLC's unitholders, $37.5 million related to our repurchase of 1,395,089 shares of our common stock held in treasury stock on December 14, 2020, $14.9 million in connection with our recapitalization, net of transaction costs, and $6.5 million of debt principal repayments.

For the year ended December 31, 2019, net cash used in financing activities was $44.9 million. This cash used primarily consisted of a $2.5 million debt principal repayment and a $42.4 million distribution to Open Lending, LLC's unitholders.

For the year ended December 31, 2018, net cash used in financing activities was $21.4 million. This cash used primarily consisted of a $2.5 million debt principal repayment and a $18.9 million distribution to Open Lending, LLC's unitholders.

Long-Term Debt

Our long-term debt consists of a $170.0 million Term Loan under the Credit Agreement that we entered into on March 11, 2020. The Term Loan in a principal amount of $170.0 million was funded on March 12, 2020. The proceeds of the Term Loan, together with cash on hand, was used (i) to make investor loans, (ii) to finance a distribution to equity investors prior to the consummation of the Business Combination, (iii) to pay transaction expenses and (iv) for other general corporate purposes and working capital.

Tax Receivable Agreement

In connection with the Closing, the Company entered into a Tax Receivable Agreement with Nebula, the Blocker, Blocker's sole shareholder, and Open Lending LLC. The Tax Receivable Agreement generally provides for the payment by the Company to the TRA holders, as applicable, of 85% of the net cash savings, if any, in U.S. federal, state and local income tax that the Company actually realizes (or are deemed to realize in certain circumstances) in periods after the Closing as a result of: (i) certain tax attributes of Blocker and/or Open Lending LLC that existed prior to the Business Combination and were attributable to the Blocker; (ii) certain increases in the tax basis of Open Lending LLC's assets resulting from the Transactions; (iii) imputed interest deemed to be paid by the Company as a result of payments the Company makes under the Tax Receivable Agreement; and (iv) certain increases in tax basis resulting from payments the Company makes under the Tax Receivable Agreement. The Company will retain the benefit of the remaining 15% of these cash savings. As of December 31, 2020 the liability recognized for the Tax Receivable Agreement was $92.4 million. There was a $(4.3) million non-cash charge related to a change in the measurement of our Tax Receivable Agreement liability as a result of changes in our blended state tax rate. Please see Note 18 "*Income Taxes.*"

The actual increases in tax basis, as well as the amount and timing of any payments under the Tax Receivable Agreements, will vary depending upon a number of factors, including the amount and timing of the taxable income the Company generates in the future, the U.S. federal income tax rates then applicable and the portion of the payments under the Tax Receivable Agreements that constitute imputed interest or give rise to depreciable or amortizable tax basis. The foregoing amount of expected future payments to TRA holders is merely an estimate and the actual payments could differ materially. It is possible that future transactions or events could increase or decrease the actual tax benefits realized and the corresponding Tax Receivable Agreements payments as compared to the foregoing estimates.

Unitholders' Distribution

On March 24, 2020, Open Lending, LLC's Board of Managers approved a non-liquidating cash distribution to its Members in the amount of $135.0 million and retained cash reserves of $35.0 million in light of recent events, including the uncertainties created by the occurrence of the COVID-19 pandemic. The cash reserve is in excess of the minimum requirements under the Company's Credit Agreement.

As of December 31, 2020, our cash and cash equivalents and restricted cash was $104.1 million. Projected operating cash flows and available cash on hand is expected to support our business operations for the foreseeable future. Given the uncertainty in market and economic conditions related to the COVID-19 pandemic, we will continue to evaluate the nature and extent of the impact to its business and financial position.

Our liquidity and ability to fund its capital requirements is dependent on our future financial performance, which is subject to general economic, financial and other factors that are beyond our control and many of which are described under "Risk Factors." If those factors significantly change or other unexpected factors adversely affect us, our business may not generate sufficient cash flow from operations or it may not be able to obtain future financings to meet its liquidity needs.

Other Factors Affecting Liquidity and Capital Resources

Operating Lease Obligations. Our operating lease obligation consists of a lease of real property under a non-cancellable operating lease executed on June 17, 2019 (the "G&I Lease"), with G&I VII Barton Skyway LP, a Delaware limited partnership, to lease an office space located at 1501 South MoPac Expressway, Austin, TX 78746 (Suite 450) for a period of 100 months commencing on October 1, 2020. The lease agreement provides an extension option for a period of 60 months beyond the end of the initial term, subject to specific conditions. Under the G&I Lease, there are $0.8 million of operating lease obligations due within the next twelve months.

Non-GAAP Financial Measures

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP financial measure used by management to evaluate its operating performance, generate future operating plans, and make strategic decisions, including those relating to operating expenses and the allocation of internal resources. Accordingly, we believe these measures provide useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and Board of Directors. In addition, they provide useful measures for period-to-period comparisons of our business, as they remove the effect of certain non-cash items and certain variable charges. Adjusted EBITDA is defined as GAAP net income (loss) excluding interest expense, income taxes, depreciation and amortization expense, share-based compensation expense, change in fair value of contingent consideration, change in measurement - Tax Receivable Agreement and transaction bonuses as a result of the Business Combination.

The following table presents a reconciliation of net income to Adjusted EBITDA for each of the periods indicated:

	Years Ended December 31,		
	2020	2019	2018
		(in thousands)	
Net income (loss)	**$ (97,564)**	**$ 62,544**	**$ 28,279**
Non-GAAP adjustments:			
Change in fair value of contingent consideration	131,932	—	—
Transaction bonuses	9,112	—	—
Change in measurement – Tax Receivable Agreement	4,292	—	—
Interest expense	11,601	322	341
Provision (benefit) for income taxes	6,573	(30)	37
Depreciation and amortization expense	752	105	80
Share-based compensation	2,828	1,984	2,572
Total adjustments	**167,090**	**2,381**	**3,030**
Adjusted EBITDA	**69,526**	**64,925**	**31,309**
Total net revenue	**$ 108,892**	**$ 92,847**	**$ 52,192**
Adjusted EBITDA margin	**63.8 %**	**69.9 %**	**60.0 %**

For the year ended December 31, 2020, Adjusted EBITDA increased by $4.6 million, or 7.1%, as compared to year ended December 31, 2019. Adjusted EBITDA margin for the year ended December 31, 2020 decreased to 63.8% as compared to 69.9% for the year ended December 31, 2019. The increase in Adjusted EBITDA during the year ended December 31, 2020 reflects our revenue growth driven by an increase in certified loan volume, year over year, partially offset by an increase in the cost of sales and operating expenses during the current year. The decline in Adjusted EBITDA margin during the year ended December 31, 2020 as compared to the previous year reflects a $(1.6) million reduction in estimated future underwriting profits primarily as a result of the economic impact of the COVID-19 pandemic. Our current year margin was also affected by an increase in general and administrative expenses as we implement the internal control and compliance procedures required of public companies.

For the year ended December 31, 2019, Adjusted EBITDA increased by $33.6 million, or 107.4%, as compared to year ended December 31, 2018. Adjusted EBITDA margin for the year ended December 31, 2019 increased to 69.9% as compared to 60.0% for the year ended December 31, 2018. The increase in Adjusted EBITDA during the year ended December 31, 2019 reflects organic revenue growth and the impact of adopting ASC 606; partially offset by an increase in the cost of sales and operating expenses.

Critical Accounting Policies and Estimates

In preparing our consolidated financial statements, we make assumptions, judgments and estimates that can have a significant impact on our revenue, loss from operations and net loss, as well as on the value of certain assets and liabilities on its consolidated balance sheets. We bases our assumptions, judgments and estimates on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions.

The consolidated financial statements have been prepared in accordance with U.S. GAAP. To prepare these financial statements, we makes estimates, assumption, and judgments that affect what we reports as our assets and liabilities, what we disclose as contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the periods presented.

In accordance with our policies, we regularly evaluate our estimates, assumptions, and judgments, including, but not limited to, those concerning revenue recognition, depreciation and amortization, contingencies, share-based compensation, and income taxes, and bases its estimates, assumptions, and judgments on its historical experience and on factors we believe reasonable under the circumstances. The results involve judgments about the carrying values of assets and liabilities not readily apparent from other sources. If our assumptions or conditions change, the actual results we report may differ from these estimates. We believe the following critical accounting policies affect the more significant estimates, assumptions, and judgments we use to prepare these consolidated financial statements. See Note 2 "*Summary of Significant Accounting and Reporting Policies*" in the notes accompanying our financial statements for a summary of our significant accounting policies, and discussion of recent accounting pronouncements.

Profit Share Revenue Recognition

We recognize revenues in accordance with Financial Accounting Standards Board, Accounting Standards Codification Topic 606, Revenue from Contracts with Customers. Application of ASC 606 requires us to make judgments and estimates related to the classification, measurement and recognition of revenue. Our revenue primarily consists of program fees derived from contracts with lending institutions, and profit share and claims administration service fees from contracts with insurance carriers, and is recognized when the contractual performance obligation is satisfied. See Note 11 "*Revenue*", of the accompanying consolidated financial statements for more information.

The primary judgment relating to the recognition of revenue is the estimation of our profit share with our insurance partners, which relies on market rate assumptions and our proprietary database, which has been accumulated over the last 20 years, and market rate assumptions. To determine the profit share revenue, we use forecasts of loan-level earned premium and insurance claim payments. These forecasts are driven by the projection of loan defaults, prepayments and severity rates. These assumptions are based on our observations of the historical behavior for loans with similar risk characteristics. The assumptions also take consideration of the forecast adjustments under various macroeconomic conditions and the current mix of the underlying portfolio of our insurance partners. To the extent these assumptions change, our profit share revenue will be adjusted.

For profit share revenue recognition purposes, particularly to measure the profit share variable consideration, we update our forecast of loan default and prepayment assumptions on a quarterly basis. The loan default rate also incorporates multiple macro-economic scenarios with conservatism embedded in a stressed scenario to ensure a representation of an economic recession.

When we deem it necessary, we back-test the major estimate assumptions to ensure the accuracy of the revenue recognition model. We also benchmark back-testing results of our forecast defaults rates against those reported by auto lenders. We update our profit-share forecasting model on an annual basis, resulting in a forecasted prepayment rate consistent with actual prepayment rates.

The impact on profit share revenue for the year ended December 31, 2020 resulting from our sensitivity analysis is summarized below:

Assumptions	**Defaults**		**Prepayments**		**Severity**	
Stress size	10.0 %	(10.0)%	10.0 %	(10.0)%	10.0 %	(10.0)%
Impact on revenue	(5.9)%	6.0 %	(2.6)%	2.8 %	(5.7)%	5.7 %

Federal and State Income Taxes

Prior to closing of the Business Combination, Open Lending, LLC, the sole owner of Lenders Protection, LLC and Open Lending Services, Inc., was a treated as a partnership for U.S. federal income tax purposes. Therefore, no provision had historically been made for federal income tax purposes prior to the closing.

Subsequent to closing, Open Lending, LLC became a disregarded entity, wholly owned by the Company by and through its wholly owned subsidiaries. As of the close of the Business Combination, the Company has been subject to U.S. federal income tax on a consolidated basis.

Our effective tax rate is based on income at statutory tax rates, adjusted for non-taxable and non-deductible items and tax credits. Management's best estimate of future events and their impact is included in our effective tax rate. Certain changes or future events, such as changes in tax legislation, could have an impact on our estimates and effective tax rate. Audit periods remain open for review until the statute of limitations has passed.

The calculation of income taxes involves estimating the actual current tax liability together with assessing temporary differences in recognition of income (loss) for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our Consolidated Balance Sheet. We record a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. In assessing the need for a valuation allowance, we are required to develop estimates of the anticipated timing of the reversal of existing deferred tax liabilities, as well as estimates of future taxable income in some instances. Judgment is inherent in this process and differences between the estimated and actual amounts could result in a material impact on our Consolidated Financial Statements.

We recognize liabilities for uncertain tax positions based on a two-step process. The first step requires us to determine whether the weight of available evidence indicates that the tax position has met the threshold for recognition. Therefore, we must evaluate whether it is more likely than not that the position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step requires us to measure the tax benefit of the tax position taken, or expected to be taken, in an income tax return as the largest amount that is more than 50% likely of being realized upon ultimate settlement. This measurement step is inherently complex and requires subjective estimations of such amounts to determine the probability of various possible outcomes. We re-evaluate the uncertain tax positions each quarter based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, expirations of statutes of limitation, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision in the period.

Although we believe the Company has no material uncertain tax positions as of December 31, 2020 or December 31, 2019, no assurance can be given that the final outcome of these matters will align with the positions reflected within these financial statements.

Share-Based Compensation Awards

We measure and recognize compensation expense for all share-based awards made to employees based on estimated fair values on the date of grant. The compensation expense is recognized on a straight-line basis over the requisite service period. Forfeitures are recognized as occurred. To determine the fair value of the share-based awards, we use the closing price of our common stock publicly traded on NASDAQ on the date of grant for RSU awards, we utilize a waterfall model set-up using the Monte-Carlo simulation framework for profit interests, and we utilize the Black-Scholes option pricing model to value stock options, both of which models involve inputs for the share value of Open Lending, expected share volatility, expected term of the awards, risk-free interest rate and expected dividend.

This determination of fair value is affected by assumptions regarding a number of highly complex and subjective variables. Changes in the subjective assumptions can materially affect the estimate of their fair value. See Note 12 "*Share-Based Compensation*", of the accompanying consolidated financial statements for more information.

Emerging Growth Company

Pursuant to the JOBS Act, an emerging growth company may adopt new or revised accounting standards that may be issued by FASB or the SEC either (i) within the same periods as those otherwise applicable to non-emerging growth companies or (ii) within the same time periods as private companies. We intend to take advantage of the exemption for complying with new or revised accounting standards within the same time periods as private companies. Accordingly, the information contained herein may be different than the information provided by other public companies.

We also intend to take advantage of some of the reduced regulatory and reporting requirements of emerging growth companies pursuant to the JOBS Act so long as we qualify as an emerging growth company, including, but not limited to, an exemption from the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation, and exemptions from the requirements of holding non-binding advisory votes on executive compensation and golden parachute payments.

New Accounting Standards Issued But Not Yet Adopted

See Note 2 "*Summary of Significant Accounting and Reporting Policies*" to the consolidated financial statements for our discussion about new accounting pronouncements adopted and those pending.

Off Balance Sheet Arrangements

We have not engaged in off-balance sheet financing arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K.

Related Party Transactions

Pursuant to a Stock Repurchase Agreement, dated as of December 7, 2020, between Open Lending and the selling stockholders, as part of the underwritten public offering as described above, we repurchased from the selling stockholders an aggregate number of 1,395,089 shares of our common stock totaling $37.5 million at the same per share price paid by the underwriters to the selling stockholders in the offering.

On March 25, 2020, Mr. Jessup borrowed $6.0 million from Open Lending in accordance with the promissory note in place and the loan was paid in full by Mr. Jessup on March 30, 2020, with proceeds received as a result of the non-liquidating distribution paid by Open Lending to its members.

We incurred consulting expenses of approximately $0.7 million and $0.6 million in the years ended December 31, 2019 and 2018, respectively, with entities owned by members of our management team and board of directors. These expenses include consulting fees paid to EWMW, LP, owned by Sandy Watkins, former Chairman of our board of directors, fees related to marketing services provided by Objective Advisors, Inc., owned by the wife of John Flynn, CEO of our company, and human resource services rendered by HireBetter, LLC, which is owned by Kurt Wilkin, a former member of our board of directors.

We believe the terms obtained or consideration that it paid, as applicable, in connection with the transactions described above were comparable to terms available or the amounts that would be paid, as applicable, in arm's-length transactions.

Contractual Obligations

As of December 31, 2020, our principal commitments consisted of obligations under the Credit Agreement and operating lease obligations. The following table summarizes our contractual obligations as of December 31, 2020:

	Payments Due by Period				
	Total	**Less than 1 Year**	**1 - 3 Years**	**3 - 5 Years**	**More than 5 Years**
			(in thousands)		
Debt principal, interest and fees	$ 236,970	$ 17,438	$ 36,647	$ 38,584	$ 144,301
Operating lease obligations	7,475	774	1,763	1,865	3,073
Other contractual commitments	574	445	129	—	—
Total contractual obligations	**$ 245,019**	**$ 18,657**	**$ 38,539**	**$ 40,449**	**$ 147,374**

Please see "*Liquidity and Capital Resources*" for a discussion of our debt and operating lease obligations.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

Our operations include activities in the United States. These operations expose us to a variety of market risks, including the effects of changes in interest rates and changes in consumer attitudes toward vehicle ownership. We monitor and manage these financial exposures as an integral part of its overall risk management program.

Market Risk

In the normal course of business we are exposed to market risk and have established policies designed to protect against the adverse effects of this exposure. We are exposed to risks associated with general economic conditions and the impact of the economic environment on the willingness of consumers to finance auto purchases. Specifically, economic factors such as interest rate levels, changes in monetary and related policies, market volatility, consumer confidence and, unemployment rates in particular also influence consumer spending and borrowing patterns. We also face risk from competition to sign, maintain and develop new relationships with auto lenders as well as competition from a wide variety of auto lenders who are (or are affiliated) with financial institutions and have capacity to hold loans on their balance sheets.

Concentration Risk

Historically, we have not had significant concentration risk in our client base. However, for some period of time in the future, we expect a significant portion of certified loan volume to come from OEM Captives. Additionally, we rely on our largest insurance partner for a significant portion of our profit share and claims administration service fee revenue. Termination or disruption of this relationship could materially adversely impact our revenue.

Interest Rate Risk

We entered into the Credit Agreement providing for the Term Loan on March 11, 2020, requiring us to make monthly principal and interest payments based on a rate of LIBOR plus 6.50% (subject to a 1% LIBOR floor) or the base rate plus 5.50%. We had $166.8 million of borrowings outstanding under the Term Loan as of December 31, 2020.

Item 8. ***Financial Statements and Supplementary Data***

Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Open Lending Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Open Lending Corporation (the Company) as of December 31, 2020 and 2019, the related consolidated statements of operations and comprehensive income (loss), changes in stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

Adoption of New ASU 2014-09

As discussed in Note 2 and Note 11 to the consolidated financial statements, the Company changed its method of accounting for revenue recognition in 2019 due to the adoption of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606).

Adoption of ASU No. 2016-02

As discussed in Note 2 to the consolidated financial statements, the Company changed its method for accounting for leases in 2020 due to the adoption of ASU No. 2016-02, Leases (Topic 842).

Basis for Opinion

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

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

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

/s/ Ernst & Young LLP

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

Austin, Texas

March 16, 2021

OPEN LENDING CORPORATION
Consolidated Balance Sheets
(In thousands, except for number of shares and par value per share amounts)

	December 31,	
	2020	**2019**
Assets		
Current assets		
Cash and cash equivalents	$ 101,513	$ 7,676
Restricted cash	2,635	2,222
Accounts receivable	4,352	3,767
Current contract assets	50,386	29,782
Prepaid expenses	1,873	479
Other current assets	2,018	205
Deferred transaction costs	—	1,081
Total current assets	**162,777**	**45,212**
Property and equipment, net	1,201	299
Operating lease right-of-use assets, net	5,733	—
Non-current contract assets	38,956	33,169
Deferred tax asset, net	85,218	—
Other non-current assets	124	506
Total assets	**$ 294,009**	**$ 79,186**
Liabilities and stockholders' equity (deficit)		
Current liabilities		
Accounts payable	3,442	1,337
Accrued expenses	3,033	2,006
Income tax payable	1,640	—
Current notes payable	4,888	2,484
Other current liabilities	4,005	2,366
Total current liabilities	**17,008**	**8,193**
Non-current notes payable, net of debt issuance costs	152,859	829
Non-current operating lease liabilities	5,138	—
Other non-current liabilities	92,382	—
Total liabilities	**$ 267,387**	**$ 9,022**
Commitments and contingencies - See Note 15		
Redeemable convertible Series C preferred units, 0 and 14,278,603 units issued and outstanding as of December 31, 2020 and 2019, respectively; aggregate liquidation preference of $0 and $40,089,539 as of December 31, 2020 and 2019, respectively	—	304,943
Stockholders' equity (deficit)		
Preferred stock, $0.01 par value; 10,000,000 shares authorized and 0 shares issued and outstanding as of December 31, 2020 and 2019, respectively	—	—
Common stock, $0.01 par value; 550,000,000 shares authorized, 128,198,185 shares issued and 126,803,096 shares outstanding as of December 31, 2020, and 37,631,052 shares issued and outstanding as of December 31, 2019	1,282	376
Additional paid-in capital	491,246	7,626
Accumulated deficit	(428,406)	(242,781)
Treasury stock at cost, 1,395,089 shares at December 31, 2020, and 0 shares at December 31, 2019	(37,500)	—
Total stockholders' equity (deficit)	**26,622**	**(234,779)**
Total liabilities and stockholders' equity (deficit)	**$ 294,009**	**$ 79,186**

See accompanying Notes to the Consolidated Financial Statements

OPEN LENDING CORPORATION
Consolidated Statements of Operations and Comprehensive Income (Loss)
(In thousands, except for number of shares and per share amounts)

	Year Ended December 31,		
	2020	**2019**	**2018**
Revenue			
Program fees	$ 43,995	$ 36,667	$ 25,044
Profit share	60,392	53,038	24,835
Claims administration service fees	4,505	3,142	2,313
Total revenue	**108,892**	**92,847**	**52,192**
Cost of services	9,786	7,806	4,603
Gross profit	**99,106**	**85,041**	**47,589**
Operating expenses			
General and administrative	32,584	13,774	12,125
Selling and marketing	7,841	7,482	6,188
Research and development	1,964	1,170	802
Operating income	**56,717**	**62,615**	**28,474**
Change in fair value of contingent consideration	(131,932)	—	—
Interest expense	(11,601)	(322)	(341)
Interest income	202	24	13
Other income (expense)	(4,377)	197	170
Income (loss) before income taxes	**(90,991)**	**62,514**	**28,316**
Provision (benefit) for income taxes	6,573	(30)	37
Net income (loss) and comprehensive income (loss)	**$ (97,564)**	**$ 62,544**	**$ 28,279**
Preferred distribution to redeemable convertible Series C preferred units	(40,689)	(11,058)	(9,066)
Accretion to redemption value of redeemable convertible Series C preferred units	47,537	(163,425)	(63,311)
Net loss attributable to common stockholders	**$ (90,716)**	**$ (111,939)**	**$ (44,098)**
Net loss and comprehensive loss per common share			
Basic and diluted net loss per share	**$ (1.09)**	**$ (2.97)**	**$ (1.17)**
Weighted average basic and diluted shares of common stock outstanding	**82,908,772**	**37,631,052**	**37,631,052**

See accompanying Notes to the Consolidated Financial Statements

OPEN LENDING CORPORATION
Consolidated Statements of Changes in Stockholders' Equity (Deficit)
(In thousands, except for number of shares and units)

	Redeemable Convertible Series C Preferred		Common Units		Series A and B Preferred Units		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total Stockholders' Equity (Deficit)
	Units	Amount	Units	Amount	Units	Amount	Shares	Amount	Amount	Amount	Amount	Amount
Balance as of December 31, 2017	**21,906,852**	**$ 78,207**	**22,073,571**	**$ 3,011**	**29,058,266**	**$ 478**	**—**	**$ —**	**$ —**	**$ (78,358)**	**$ —**	**$ (74,869)**
Retroactive application of the recapitalization	(7,628,249)	—	(22,073,571)	(3,011)	(29,058,266)	(478)	37,631,052	376	3,113	—	—	—
Balance as of December 31, 2017, as adjusted	**14,278,603**	**78,207**	**—**	**—**	**—**	**—**	**37,631,052**	**376**	**3,113**	**(78,358)**	**—**	**(74,869)**
Fair value adjustment of redemption option	—	63,311	—	—	—	—	—	—	—	(63,311)	—	(63,311)
Share-based compensation	—	—	—	—	—	—	—	—	2,529	—	—	2,529
Distribution to Open Lending, LLC unitholders	—	—	—	—	—	—	—	—	—	(26,420)	—	(26,420)
Net income	—	—	—	—	—	—	—	—		28,279	—	28,279
Balance as of December 31, 2018	**14,278,603**	**141,518**	**—**	**—**	**—**	**—**	**37,631,052**	**376**	**5,642**	**(139,810)**	**—**	**(133,792)**
ASC 606 Transition Adjustment	—	—	—	—	—	—	—	—		32,768	—	32,768
Fair value adjustment of redemption option	—	163,425	—	—	—	—	—	—	—	(163,425)	—	(163,425)
Share-based compensation	—	—	—	—	—	—	—	—	1,984	—	—	1,984
Distribution to Open Lending, LLC unitholders	—	—	—	—	—	—	—	—	—	(34,858)	—	(34,858)
Net income	—	—	—	—	—	—	—	—		62,544	—	62,544
Balance as of December 31, 2019	**14,278,603**	**304,943**	**—**	**—**	**—**	**—**	**37,631,052**	**376**	**7,626**	**(242,781)**	**—**	**(234,779)**
Fair value adjustment of redemption option	—	(47,537)	—	—	—	—	—	—	—	47,537	—	47,537
Distribution to Open Lending, LLC unitholders	—	—	—	—	—	—	—	—	—	(135,598)	—	(135,598)
Recapitalization transaction, net of transaction costs	(14,278,603)	(257,406)	—	—	—	—	54,218,857	542	242,001	—	—	242,543
Deferred tax asset	—	—	—	—	—	—	—	—	1,874	—	—	1,874
Fair value of contingent consideration at June 10, 2020	—	—	—	—	—	—	—	—	(347,089)	—	—	(347,089)
Share-based compensation plan	—	—	—	—	—	—	—	—	2,828	—	—	2,828
Stock warrant exercise	—	—	—	—	—	—	9,160,776	92	105,257	—	—	105,349
Issuance of earn out shares	—	—	—	—	—	—	23,750,000	238	419,606	—	—	419,844
Release of lock up shares	—	—	—	—	—	—	3,437,500	34	59,143	—	—	59,177
Share repurchase	—	—	—	—	—	—	(1,395,089)	—	—	—	(37,500)	(37,500)
Net loss	—	—	—	—	—	—	—	—	—	(97,564)	—	(97,564)
Balance as of December 31, 2020	**—**	**$ —**	**—**	**$ —**	**—**	**$ —**	**126,803,096**	**$ 1,282**	**$ 491,246**	**$ (428,406)**	**$ (37,500)**	**$ 26,622**

See accompanying Notes to the Consolidated Financial Statements

OPEN LENDING CORPORATION
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31,		
	2020	**2019**	**2018**
Cash flows from operating activities			
Net income (loss)	$ (97,564)	$ 62,544	$ 28,279
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Share-based compensation	2,828	1,984	2,529
Depreciation and amortization	1,768	105	80
Change in fair value of contingent consideration	131,932	—	—
Deferred income taxes	4,734	—	—
Non-cash interest expense	—	92	30
Changes in assets & liabilities			
Accounts receivable	(585)	(1,829)	(443)
Unbilled revenue	—	—	(2,612)
Contract assets	(26,391)	(21,714)	—
Operating lease right-of-use assets	(548)	—	—
Prepaid expenses	(313)	(830)	(540)
Other current and non-current assets	(1,431)	(481)	(140)
Accounts payable	2,105	583	378
Accrued expenses	1,027	896	184
Income tax payable	1,640	—	—
Operating lease liabilities	(280)	—	—
Other current and noncurrent liabilities	5,718	412	856
Net cash provided by operating activities	**24,640**	**41,762**	**28,601**
Cash flows from investing activities			
Purchase of property and equipment	(1,196)	(99)	(106)
Net cash used in investing activities	**(1,196)**	**(99)**	**(106)**
Cash flows from financing activities			
Repayments of notes payable	(6,521)	(2,500)	(2,500)
Proceeds from issuance of long-term debt	170,000	—	—
Payment on debt issuance cost	(10,061)	—	—
Distributions to Open Lending, LLC unitholders	(135,598)	(42,401)	(18,876)
Proceeds from stock warrant exercises	105,349	—	—
Share repurchase	(37,500)	—	—
Recapitalization transaction, net of transaction costs	(14,863)	—	—
Net cash provided by (used in) financing activities	**70,806**	**(44,901)**	**(21,376)**
Net change in cash and cash equivalents and restricted cash	94,250	(3,238)	7,119
Cash and cash equivalents and restricted cash at the beginning of the year	9,898	13,136	6,017
Cash and cash equivalents and restricted cash at the end of the year	**$ 104,148**	**$ 9,898**	**$ 13,136**
Supplemental disclosure of cash flow information:			
Interest paid	$ 10,444	$ 320	$ 346
Income tax paid (refunded), net	144	(40)	37
Right of use assets obtained in exchange for lease obligations	5,362	—	—
The following presents the classification of cash, cash equivalents and restricted cash within the consolidated balance sheets:			
Cash and cash equivalents	$ 101,513	$ 7,676	$ 11,072
Restricted cash	2,635	2,222	2,064
Total	**$ 104,148**	**$ 9,898**	**$ 13,136**
Non-cash investing and financing:			
Change in fair value of redeemable convertible Series C preferred units	$ (47,537)	$ 163,425	$ 63,311
Conversion of preferred stock to common stock	257,406	—	—
Distributions accrued but not paid	—	—	7,544

See accompanying Notes to the Consolidated Financial Statements

1. Description of Business

Open Lending Corporation, headquartered in Austin, Texas, provides loan analytics, risk-based loan pricing, risk modeling, and automated decision technology for automotive lenders throughout the United States of America which allows each lending institution to book incremental non-prime and near-prime automotive loans out of their existing business flow. The Company also operates as a third-party administrator that adjudicates insurance claims and refunds on those automotive loans.

Nebula Acquisition Corporation ("Nebula"), our predecessor, was originally incorporated in Delaware on October 2, 2017 as a special purpose acquisition company for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination with one or more businesses. On June 10, 2020 (the "Closing Date"), Nebula consummated a business combination (the "Business Combination") pursuant to that certain Business Combination Agreement, dated as of January 5, 2020 (as amended by that certain Amendment No. 1 and Waiver, dated as of March 18, 2020, that certain Amendment No. 2 and Consent, dated as of March 26, 2020, that certain Amendment No. 3, dated as of May 13, 2020, and that certain amendment No. 4, dated as of June 9, 2020, the "Business Combination Agreement") by and among Nebula, Open Lending, LLC, a Texas limited liability company, BRP Hold 11, Inc., a Delaware corporation ("Blocker"), the Blocker's sole stockholder, Nebula Parent Corp., a Delaware Corporation ("ParentCo"), NBLA Merger Sub LLC, a Texas limited liability company, NBLA Merger Sub Corp., a Delaware corporation, and Shareholder Representative Services LLC, a Colorado limited liability company, as the Securityholder Representative.

Immediately upon the completion of the Business Combination and the other transactions contemplated by the Business Combination Agreement (the "Transactions", and such completion, the "Closing"), Open Lending, LLC became a wholly-owned subsidiary of ParentCo, and, ParentCo changed its name to Open Lending Corporation. The Company is now listed on NASDAQ under the symbol "LPRO."

Unless the context otherwise requires, "we," "us," "our," "Open Lending," and the "Company" refers to Open Lending Corporation, the combined company and its subsidiaries following the Business Combination. "Open Lending, LLC" and "Nebula" refers to Open Lending, LLC and Nebula Acquisition Corporation prior to the Closing Date. Refer to Note 3 for further discussion on the Business Combination.

The Company has evaluated how it is organized and managed and has identified only one operating segment. All of the Company's operations and assets are in the United States, and all of its revenues are attributable to United States customers.

2. Summary of Significant Accounting and Reporting Policies

a) Basis of presentation and consolidation

The accompanying consolidated financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) and include the accounts of Open Lending and all its subsidiaries that are directly or indirectly owned or controlled by the Company. All intercompany transactions and balances have been eliminated upon consolidation. Certain prior year amounts, such as deferred transaction costs, have been reclassified to conform to the December 31, 2020 balance sheet presentation.

The Business Combination is accounted for as a reverse recapitalization as Open Lending, LLC was determined to be the accounting acquirer under Financial Accounting Standards Board's Accounting Standards Codification Topic 805, Business Combinations ("ASC 805"). The determination is primarily based on the evaluation of the following facts and circumstances:

- the pre-combination unitholders of Open Lending, LLC hold the majority of voting rights in the Company;
- the pre-combination unitholders of Open Lending, LLC have the right to appoint the majority of the directors of the Company;
- senior management of Open Lending, LLC became the senior management of the Company; and
- operations of Open Lending, LLC comprise the ongoing operations of the Company.

In connection with the Business Combination, all outstanding units of Open Lending, LLC were converted into common stock of the Company, par value $0.01 per share, representing a recapitalization, and the net assets of Nebula were acquired at historical cost, with no goodwill or intangible assets recorded. Open Lending, LLC was deemed to be the predecessor of the Company, and the consolidated assets and liabilities and results of operations prior to the Closing are those of Open Lending, LLC. The shares and corresponding capital amounts and net income (loss) per share available to common stockholders, prior to the Business Combination, have been retroactively restated as shares reflecting the exchange ratio established in the Business Combination Agreement. The number of Series C preferred units in mezzanine equity was also retroactively restated in shares reflecting the exchange ratio, and the carrying amount of the Series C Preferred Units is based on the fair value of its redemption amount on each reporting date. All Series C Preferred Units were converted to the Company's common stock on the closing date of the Business Combination.

b) Coronavirus outbreak

The outbreak of the novel coronavirus ("COVID-19") that was declared a pandemic by the World Health Organization on March 11, 2020 and declared a National Emergency by the President of the United States on March 13, 2020, has led to adverse impacts on the U.S. and global economies and created uncertainty regarding potential impacts on our operating results, financial condition and cash flows. The extent of the impact of the COVID-19 pandemic on our operational and financial performance will depend on certain developments, including the duration and continued spread of the disease, the impact on our revenues which are generated with automobile lenders and insurance company partners and driven by consumer demand for automobiles and automotive loans, extended closures of businesses, rising unemployment and the overall impact on our customer behavior, all of which are uncertain and cannot be predicted. We are diligently working to ensure that we can continue to operate with minimal disruption, mitigate the impact of the pandemic on our employees' health and safety, and address potential business interruptions on ourselves and our customers. We believe that the COVID-19 pandemic, the mitigation efforts and the resulting economic impact have had, and may continue to have, an overall adverse effect on our business, results of operations and financial condition. We have seen a reduction in loan applications and certified loans throughout most of 2020. As consumers and lenders have adjusted to the pandemic, application and certification levels have increased, but are not back to pre-pandemic levels when comparing existing lending institutions to the same lending institution's prior year performance. Lenders' forbearance programs, government stimulus packages, extended unemployment benefits and other government assistance via the Cares Act passed on March 27, 2020 have resulted in a reduction in expected defaults since the onset of the pandemic. As these programs' accessibility diminishes, defaults may increase. The potential increase in defaults may impact our revenues and subsequent recovery as the automotive finance industry and overall economy recover. We continue to closely monitor the current macro environment, particularly the impact of the recent COVID-19 pandemic on monetary and fiscal policies.

c) Emerging growth company

The Company is an "emerging growth company" as defined in Section 2(a)(19) of the Securities Act, as modified by the Jumpstart Our Business Startups Act ("JOBS Act"). As such, the Company is eligible for and intends to take advantage of certain exemptions from various reporting requirements applicable to other public companies that are not emerging growth companies for as long as it continues to be an emerging growth company, including (i) the exemption from the auditor attestation requirements with respect to internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act, (ii) the exemptions from say-on-pay, say-on-frequency and say-on-golden parachute voting requirements and (iii) reduced disclosure obligations regarding executive compensation in its periodic reports and proxy statements.

The Company will remain an emerging growth company until the earliest of (i) the Company is deemed to be a "large accelerated filer," as defined in the Exchange Act, (ii) the last day of the fiscal year in which it has total annual gross revenue of $1.07 billion or more during such fiscal year, (iii) the date on which it has issued more than $1 billion in non-convertible debt in the prior three-year period or (iv) the last day of the fiscal year following the fifth anniversary of the date of the first sale of its common stock in its initial public offering.

d) Use of estimates and judgements

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates, and those differences may be material. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Some significant items subject to such estimates and assumptions include, but are not limited to, profit share revenue recognition and the corresponding impact on contract asset, the recognition of the valuations of share-based compensation arrangements, valuation of contingent consideration, and assessing the realizability of deferred tax assets. These estimates, although based on actual historical trend and modeling, may potentially show significant variances over time.

In connection with the estimation of profit share revenue recognition and the related contract asset under Accounting Standards Update ("ASU") 2014-9, Revenue from Contracts with Customers (Topic 606) ("ASC 606"), we use forecasts of loan-level earned premium and insurance claim payments. These forecasts are driven by the projection of loan defaults, prepayments and default severity rates. These assumptions are based on our observations of the historical behavior for loans with similar risk characteristics. The assumptions also take into consideration the forecast adjustments under various macroeconomic conditions, including the potential impact from the COVID-19 pandemic, and the current mix of the underlying portfolio of our insurance partners. As the Company closely monitors the development of the pandemic and its ongoing impact on Open Lending's business, management has accordingly adjusted these assumptions during the year ended December 31, 2020 as a result of changes in facts and circumstances and general market conditions derived from the COVID-19 pandemic.

e) Income taxes

The Company accounts for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax laws and rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured as the largest amount that is greater than 50% likely of being realized.

The Company records potential interest and penalties related to an underpayment of income taxes as other expenses and penalties included within other income (expenses) in the consolidated statements of operations and comprehensive income (loss).

f) Cash and cash equivalents

Cash and cash equivalents consists of cash held in checking and savings accounts. The Company considers all highly liquid investments with original or remaining maturities of three months or less at the date of purchase to be cash equivalents. We determine the appropriate classification of the Company's cash and cash equivalents at the time of purchase.

g) Restricted cash

Restricted cash relates to deposits held in a financial institution for the processing of automated clearing house transactions and funds held on behalf of insurance partners to settle insurance claims. As a third-party administrator of insurance claims and refund adjudication, the Company collects funds from insurance partners which are intended to be used to settle insurance claims and process funds on behalf of the insurance partners. The balance of the funds held on behalf of insurance partners was $2.6 million and $2.2 million at December 31, 2020 and 2019 respectively; there is an offsetting liability that is included in "Other current liabilities" on the accompanying consolidated balance sheets.

h) Accounts receivable

Accounts receivable includes program fees billed to the customers, for which payments are expected to be received within 30 days from billing. The program fees are assessed at the time when the customer uses LPP to certify consumer loans and are billed either as an upfront fee or in twelve (12) equal installments. The Company bills the customers for the upfront fee in the month the service is provided and for the monthly installment fee over twelve (12) months. Amounts collected on trade accounts receivable are included in net cash provided by operating activities in the consolidated statement of cash flows. The Company does not maintain an allowance for doubtful accounts for estimated losses with respect to its accounts receivable portfolio due to the short time frame within which the receivable amounts are settled by the customers and there is not any historical evidence of credit losses on trade accounts receivable. The Company does not have any off-balance-sheet credit exposure related to its customers. There have not been any charge-offs against the Company's accounts receivable portfolio for the periods presented.

i) Property and equipment

Property and equipment acquired by the Company are recorded at cost, less accumulated depreciation, and impairment losses, if any. Major additions and improvements are capitalized while maintenance and repairs that do not improve or extend the useful life of the respective asset are expensed as incurred. Depreciation, which is presented within the general and administrative expense caption, is calculated using the straight-line method based on the estimated useful lives of the assets. The estimated useful lives of property and equipment ranges from three to eight years. The assets are reviewed for impairment whenever events or changes in circumstances indicate that the amount recorded may not be recoverable, and if not recoverable based on the assets' expected undiscounted cash flows, an impairment is recognized to the extent that the carrying amount exceeds the fair value.

Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the assets.

j) Fair value measurements

The Company uses valuation approaches that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market.

When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- *Level 1 Inputs:* Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- *Level 2 Inputs:* Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), for substantially the full term of the asset or liability.
- *Level 3 Inputs:* Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

k) Revenue recognition

The Company's revenue is derived from program fees from lending institutions, profit share on the production of insurance contracts for third party insurance carriers and claims administration service for those same insurance carriers. Revenues are recognized when control of the promised services is transferred to the Company's customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services. Upon the adoption of ASC 606, where the Company's performance obligations have been completed, but the final amount of transaction price is unknown, we estimate the amount of the transaction price we expect to be entitled to under the Company's customer contracts. We recognize subsequent adjustments to an estimated transaction price upon the receipt of additional information or final settlement, whichever occurs first. Prior to the adoption of ASC 606, we recognized revenue when persuasive evidence or an arrangement existed, services had been rendered, transaction price had been determinable and collectability had been reasonably assured.

For program fees, we provide customers (i.e. automotive lending institutions) with access to and use of the Company's Lenders Protection Program ("LPP"), which is a Software as a Service platform that facilitates loan decision making and automated underwriting by third-party lenders and the issuance of credit default insurance through third-party insurance providers. For each loan processed through the platform, the Company receives a usage fee based on a percentage of the original principal balance of the loan covered under the LPP. The program fee arrangements are assessed at the time the platform usage occurs and is either paid upfront or over a twelve (12) month installment basis.

Profit share is derived from the Company agency relationship with third-party insurance providers whereby it facilitates the underwriting and issuance of credit default insurance for its lender customers through the contracted third-party insurance providers. With the adoption of ASC 606 on January 1, 2019, the Company recognizes profit share based on the amount of cash flows it expects to receive from the insurance company over the term of the underlying insured loan. Prior to 2019, the Company recognized revenue when the promised services had been rendered, the profit share amount became determinable and collectability was assured.

For the insurance policies issued through the Company's program, the Company provides adjudication services for insurance claims on the third-party insurer's policies for auto loans processed through the Lenders Protection Program. The Company earns a monthly service fee which is calculated by the third-party insurance providers as 3% of the monthly net insurance premium collected over the life of the underlying loan. Revenue is recognized as the service is provided over the term of the adjudication contract with the insurance carrier.

Refer to Note 11, "*Revenue*" for additional information regarding the nature and timing of the Company's revenue.

l) Research and development costs

Research and development costs consist primarily of compensation and benefits of employees engaged in the ongoing development of a lending enablement platform for the automotive finance market, called Lenders Protection Program platform.

m) Debt issuance costs

Debt issuance costs incurred in connection with the issuance of notes payable are capitalized and amortized to interest expense in accordance with the related debt agreement. Debt issuance costs are included as a reduction in non-current notes payable, net of debt issuance cost in the accompanying consolidated balance sheets.

(n) Deferred transaction costs

Investment banking, legal, accounting and other professional fees directly attributable to the issuance of equity in connection with Business Combination were capitalized within deferred transaction costs on the consolidated balance sheet as of December 31, 2019 and reclassified to additional paid-in capital upon issuance of shares on the Closing Date of the transaction.

o) Share-based compensation

The Company grants share-based equity awards to its employees and board of directors. The Company accounts for the share-based equity awards in accordance with ASC 718, Compensation – Stock Compensation, which establishes accounting for share-based awards exchanged for employee services and requires the Company to expense the estimated fair value of these awards over the requisite service period. Determining the appropriate fair value model and calculating the fair value of the share-based awards at the date of grant requires management judgement. The Company uses the closing price of the publicly traded common stock on the grant date as fair value of restricted stock units, and utilizes the Monte Carlo valuation model to estimate the fair value of the profit interests and the Black-Scholes option pricing model to estimate the fair value of employee stock options. These pricing models require the use of input assumptions, including expected volatility, expected life, expected dividend yield, and expected risk-free rate of return. The expected life of the awards was estimated using the "Simplified Method" that utilizes the midpoint between the vesting date and the end of the contractual term. The risk-free interest rate assumption is based on observed interest rates appropriate for the terms of awards. The expected volatility was based on the average of implied and observed historical volatility of comparable companies as we do not have enough history as a public company. Changes in these assumptions can materially affect the estimate of the awards fair value. The Company expects to issue shares upon stock options exercise from treasury stock.

At December 31, 2020, the outstanding share-based equity awards vest based on service conditions only and have a graded vesting schedule. The Company recognizes compensation expense for vested awards in the consolidated statements of operations and comprehensive income, net of actual forfeitures in the period they occur, on a straight-line basis over the requisite service period. Share-based compensation expense related to vested awards is allocated to cost of services, general and administrative, selling and marketing, and research and development, based on the functional responsibilities of the awarded share holder in the consolidated statements of operations and comprehensive income.

p) Contingent consideration

As part of the Business Combination, Open Lending, LLC unitholders and certain Nebula equity holders were entitled to additional consideration in the form of shares of the Company's common stock to be issued when the Company's common stock price achieved certain market share price milestones within specified periods following the Closing. In addition, the Nebula sponsors were restricted to transfer a portion of their founder shares unless market share price targets were achieved within the specified period.

Pursuant to the guidance under ASC 815, Derivatives and Hedging, the contingent consideration was classified as a Level 3 fair value measurement liability, and the increase or decrease in the fair value during the reporting period was recognized as expense or income accordingly. The fair value of the contingent consideration was estimated using the Monte Carlo simulation of the stock prices based on historical and implied market volatility. The fair value of the contingent consideration on each vesting date (i.e. the date when each respective share price performance milestone was achieved) was based on the closing share price of the Company's publicly traded stock on the vesting date.

The Company's contingent consideration was settled in July and August of 2020. Refer to Note 9, "*Contingent Consideration*" for additional information regarding the nature and timing of the Company's contingent consideration.

q) Treasury stock

The Company accounts for treasury stock under the cost method and includes treasury stock as a component of stockholders' equity (deficit).

r) Net income (loss) per share

The Company computes net income (loss) per share using the two-class method required for participating securities. The two-class method requires income available to common stockholders for the period to be allocated between common stock and participating securities based upon their respective rights to receive distributions as if all income for the period had been distributed.

Prior to the Business Combination, the Company's pre-merger LLC membership structure included common units and convertible preferred units which were regarded as participating securities. When calculating the net income (loss) per share for the presented periods, the Company has retroactively restated the number of common and preferred units issued and outstanding prior to June 10, 2020 to the number of shares of common stock into which they were converted, based on the exchange ratio established in the Business Combination Agreement.

In accordance with the Company's pre-merger LLC membership structure, holders of the redeemable convertible preferred units would be entitled to distributions in preference to common stockholders, at specified rates, if declared. The Company also recognized adjustments to redemption amount of the redeemable convertible preferred units similar to a distribution, in temporary equity. Any remaining net income would then be distributed to the holders of common stock and non-redeemable convertible preferred units on a pro-rata basis assuming conversion of all convertible preferred units into common stock in the event that the Company had profits to be allocated to the stockholders. However, the redeemable convertible preferred units did not contractually require the holders of such participating instruments to participate in the Company's losses. As such, net losses for the periods presented were allocated to common stock only.

The Company's basic net income (loss) per share is calculated by dividing net income (loss) attributable to common stockholders by the weighted-average number of shares of common shares outstanding for the period, without consideration of potentially dilutive securities. The diluted net income (loss) per share is calculated by giving effect to all potentially dilutive securities outstanding for the period using the treasury stock method or the if-converted method based on the nature of such securities. Diluted net income (loss) per share is the same as basic net income (loss) per share in periods when the effects of potentially dilutive shares of common stock are anti-dilutive.

s) Concentrations of revenue and credit risks

The Company's top ten customers accounted for an aggregate of 38% of the Company's total program fee revenue in 2020, with the top customer accounting for 13% of total program fee revenue. The Company's business relationships with its two insurance partners generate 55% of the Company's total revenue, with the top insurance partner accounting for approximately 70% of the total profit share revenue. We expect to have significant concentration in our Original Equipment Manufacturing ("OEM") customers for the foreseeable future. In the event that one or more of our other significant customers terminate their relationships with us, or elect to utilize an alternative source for financing, the number of loans originated through the Open Lending platform would decline, which would materially adversely affect our business and, in turn, our revenue.

Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents, restricted cash and accounts receivable to the extent of the amounts recorded on the balance sheets.

Cash and cash equivalents are deposited in commercial analysis and savings accounts at two financial institutions, both with high credit standing. Restricted cash relates to funds held by the Company on behalf of the insurance carriers, delegated for the use of insurance claim payments. Restricted cash are deposited in commercial analysis accounts at one financial institution. At times, such deposits may be in excess of the Federal Deposit Insurance Corporation insurance limits of $250,000 per institution. The Company has not experienced any losses on its deposits of cash and cash equivalents and management believes the Company is not exposed to significant risks on such accounts.

The Company's accounts receivables are derived from revenue earned from customers. The Company performs credit evaluations of its customers' financial condition. As of December 31, 2020 and December 31, 2019, there was no allowance for doubtful accounts. At December 31, 2020, the Company had one customer that represented 19% of the Company's accounts receivable. At December 31, 2019, the Company had one customer that represented 22% of the Company's accounts receivable.

t) Recently issued accounting pronouncements not yet adopted

In December 2019, the FASB released ASU 2019-12, which affects general principles within Topic 740, Income Taxes. The amendments of ASU 2019-12 are meant to simplify and reduce the cost of accounting for income taxes. The amendments in ASU 2019-12 are effective for public business entities for fiscal years beginning after December 15, 2020, including interim periods therein. Early adoption of the standard is permitted, including adoption in interim or annual periods for which financial statements have not yet been issued. The Company does not expect adoption of the new standard to have a material impact on its consolidated Financial Statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments, which provides guidance regarding the measurement of credit losses on financial instruments. The new guidance replaces the incurred loss impairment methodology in the current guidance with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. This ASU will be effective for the Company commencing after December 15, 2022. The Company is in the process of assessing the impact of this ASU on our consolidated financial statements and disclosures.

Although there are several other new accounting pronouncements issued or proposed by the FASB, which we have adopted or will adopt, as applicable, the Company does not believe any of these accounting pronouncements has had or will have a material impact on its consolidated financial position or results of operations.

u) Recently adopted new accounting standards

On January 1, 2019, the Company adopted ASU 2014-19 and all related amendments (ASC 606) and applied its provisions to all uncompleted contracts using the modified retrospective method. The Company recognized the cumulative effect of initially applying ASC 606 as an adjustment to increase the opening balance of retained earnings by $32.8 million. The comparative information for prior periods has not been adjusted and continues to be reported under the accounting standards in effect for those periods. See Note 11 "*Revenue*" for further information related to adoption of the new revenue standard, including the Company's updated revenue accounting policies and accounting policies for costs to obtain and fulfill a contract with a customer.

On January 1, 2020, we adopted ASU 2016-2, Leases ("Topic 842") using the alternative modified retrospective transition method and elected practical expedients which allowed us to account for the lease and non-lease components as a single component. For non-lease components that are variable payments (i.e. common area maintenance and utilities) not based on an index or a rate or bounded by a minimum payment provision per the lease agreement, we expense such variable payments as incurred. In addition, we elected not to reassess whether any expired or existing contracts contain leases, the corresponding lease classification and initial direct costs. The practical expedients were applied across our lease portfolios.

We recognized operating lease right-of-use ("ROU") asset and operating lease liabilities for operating leases with initial terms greater than 12 months. ROU assets represent our right to use an asset for the lease term, while lease liabilities represent our obligation to make lease payments. Operating lease ROU assets and liabilities are recognized based on the present value of lease payments over the lease term at the lease commencement date. Refer to Note 4, "*Leases*" for additional information on the Company's lease accounting policy and the impact of Topic 842 on the operating lease for our current office space which commenced under ASC 842 on September 1, 2020.

3. Business Combination

On June 10, 2020, Nebula consummated a business combination with Open Lending, LLC pursuant to the Business Combination Agreement. Pursuant to ASC 805, for financial accounting and reporting purposes, Open Lending, LLC was deemed the accounting acquirer and Nebula was treated as the accounting acquiree, and the Business Combination was accounted for as a reverse recapitalization. Accordingly, the Business Combination was treated as the equivalent of Open Lending, LLC issuing equity for the net assets of Nebula, accompanied by a recapitalization. Under this method of accounting, the consolidated financial statements of Open Lending, LLC are the historical financial statements of Open Lending Corporation. The net assets of Nebula were stated at historical costs, with no goodwill or other intangible assets recorded in accordance with U.S. GAAP, and are consolidated with Open Lending, LLC's financial statements on the Closing Date. The shares and net income (loss) per share available to holders of the Company's common stock, prior to the Business Combination, have been retroactively restated as shares reflecting the exchange ratio established in the Business Combination Agreement.

As a result of the Business Combination, Open Lending, LLC's unitholders received aggregate consideration of approximately $1.0 billion, which consists of (i) $328.8 million in cash at the closing of the Business Combination, net of transaction expenses, (ii) $135.0 million in cash distribution from debt issued in March 2020, and (iii) 51,909,655 shares of common stock valued at $10.00 per share, totaling $519.1 million. In addition, Open Lending, LLC's unitholders were entitled to receive additional contingent consideration of up to an aggregate of 22,500,000 shares if the price of the Company's common stock trading on the NASDAQ meets certain thresholds following the Business Combination. All contingent consideration shares were issued or released during the three months ended September 30, 2020. See Note 9 "*Contingent Consideration*" for additional information.

In connection with the Business Combination, the Company incurred direct and incremental costs of approximately $55.5 million related to the equity issuance, consisting primarily of investment banking, legal, accounting and other professional fees, which were recorded to additional paid-in capital as a reduction of proceeds. In addition, the Company incurred $9.1 million in transaction bonuses paid to key employees and directors and $2.2 million in non-cash share-based compensation expense due to the accelerated vesting of Open Lending, LLC's legacy share-based compensation plan. The transaction bonuses and the accelerated share-based compensation expense are included in general and administrative expense on our consolidated statement of operations and comprehensive income (loss) for the year ended December 31, 2020. See Note 12 "*Share-Based Compensation*" for additional information.

4. Leases

The Company determines if an arrangement is a lease, or contains a lease, at the inception of the arrangement and evaluates whether the lease is an operating lease or a finance lease at the commencement date. The Company recognizes ROU lease assets and lease liabilities for operating and finance leases with initial terms greater than 12 months. Lease liabilities are calculated as the present value of fixed payments not yet paid at the measurement date and variable lease payments which are not based on an index or a rate, such as common area maintenance fees, taxes and insurance, are expensed as incurred. ROU assets represent our right to use an asset for the lease term, while lease liabilities represent our obligation to make lease payments. The ROU assets for operating and finance leases and liabilities are recognized based on the present value of fixed lease payments over the lease term at the lease commencement date. Since the interest rate implicit in the Company's leases is not readily determinable, we use our incremental borrowing rate, which is estimated as the interest rate paid to borrow on a collateralized basis over a similar term, to determine the present value of our lease payments.

Operating lease ROU assets are recognized net of any lease prepayments and incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Operating lease expense is recognized on a straight-line basis over the lease term.

Open Lending executed a noncancellable operating lease agreement with G&I VII Barton Skyway LP, a Delaware limited partnership ("Landlord") to lease its current office space located at 1501 South MoPac Expressway, Suite 450, Austin, Texas 78746 for a period of 100 months starting on October 1, 2020. The Company moved into the new office space on September 1, 2020 for a period of 101 months, which is considered as the lease commencement date and period under ASC 842. The Company does not have a lease payment due until four months after the stated commencement date per the agreement. The lease provides us with an extension option for a period of 60 months beyond the end of the initial term, subject to specific conditions outlined in the agreement. Prior to its move-in to the new office, the Company had an operating lease agreement for its office space at 901 S. MoPac Expressway, Bldg. 1, Austin, Texas 78746, which ended on September 30, 2020.

For the years ended December 31, 2020, 2019 and 2018, the Company recorded the following lease expenses:

	Year Ended December 31,		
	2020	2019	2018
	(in thousands)		
Operating lease expense	$ 640	$ 380	$ 380
Variable lease payment	289	250	229
Total lease expense	**$ 929**	**$ 630**	**$ 609**

Additional information related to the operating lease for the period the Company adopted ASC 842 is as follows:

	Year Ended December 31, 2020
	(in thousands)
Cash paid for operating leases included in operating cash flows	$ 828
Operating lease ROU assets obtained in exchange for new lease liabilities	5,362
Total	**$ 6,190**
Weighted-average remaining lease term – operating lease (in years)	8.08
Weighted-average discount rate – operating lease	7.72 %

The balance of our operating lease ROU asset and operating lease liability as of December 31, 2020 is summarized below. The current and non-current lease liabilities are reflected in other current liabilities and non-current operating lease liabilities, respectively, on our consolidated balance sheets:

	At December 31, 2020
	(in thousands)
Operating lease right-of-use asset	$ 5,911
Accumulated amortization	(178)
Operating lease right-of-use assets, net	**$ 5,733**
Lease liability, current	$ 364
Lease liability, non-current	5,138
Total operating lease liability	**$ 5,502**

The maturities of lease liabilities are as follows:

	At December 31, 2020
	(in thousands)
2021	$ 774
2022	869
2023	894
2024	920
2025	945
Thereafter	3,073
Total undiscounted liabilities	7,475
Less: Interest	1,973
Present value of lease liabilities	**$ 5,502**

5. Property and Equipment, Net

Property and equipment consisted of the following:

	At December 31, 2020	At December 31, 2019
	(in thousands)	
Leasehold improvements	$ 276	$ 247
Furniture and equipment	1,077	391
Total cost of property and equipment	1,353	638
Less: accumulated depreciation	(152)	(339)
Total property and equipment, net	**$ 1,201**	**$ 299**

Total depreciation expense was $0.3 million, $0.1 million and $0.1 million for the years ended December 31, 2020, 2019 and 2018, respectively, and is recognized within general and administrative expenses within the consolidated statements of operations and comprehensive income.

6. Accrued Expenses

Accrued expenses consisted of the following:

	At December 31, 2020	At December 31, 2019
	(in thousands)	
Accrued employee expenses	$ 2,796	$ 1,757
Other	237	249
Total accrued expenses	**$ 3,033**	**$ 2,006**

Accrued employee expenses consist of accrued bonuses, commissions, and paid time off.

7. Other Current Liabilities

Other current liabilities consisted of the following:

	At December 31, 2020	At December 31, 2019
	(in thousands)	
Third-party claims administration liability	$ 2,591	$ 2,182
Tax refund due to pre-merger unitholder	862	—
Current operating lease liability	364	—
Other	188	184
Total other current liabilities	**$ 4,005**	**$ 2,366**

Third-party claims administration liability represents cash deposits held on behalf of insurance partners to settle insurance claims. Tax refunds due to pre-merger unitholder reflects estimated tax refunds due to a unitholder of the pre-merger entity. Current operating lease liability represents the Company's current operating lease liability for its corporate headquarters in Austin, Texas.

8. Notes Payable

Prior to the Business Combination, Open Lending, LLC was party to a credit agreement which provided for $12.5 million in aggregate principal amount of promissory note ("the Note"). The Note was repaid in full in March of 2020 with proceeds of a Term Loan funded through our Credit Agreement described below.

The Company is the borrower under that certain Credit Agreement, dated as of March 11, 2020, among Open Lending, LLC, UBS AG, Stamford Branch, as administrative agent, the lenders from time to time party thereto and the other parties thereto, as amended, the Credit Agreement. Pursuant to the Credit Agreement, the lenders thereto funded a term loan ("Term Loan") in a principal amount of $170.0 million, which was used primarily to fund a non-liquidation distribution to its unitholders, repay the Note and provide cash reserves. The obligations of Open Lending under the Credit Agreement are guaranteed by all of its subsidiaries and secured by substantially all of the assets of Open Lending and its subsidiaries, in each case, subject to certain customary exceptions. The current maturity date for the Credit Agreement is March 2027. The term loan bears interest at a rate of LIBOR plus 6.50% (subject to a LIBOR floor of 1%) or the base rate plus 5.50%. For the year ended December 31, 2020, the stated interest rate was 7.50%. The Credit Agreement contains a maximum total net leverage ratio financial covenant that is tested quarterly and is calculated based on the ratio of the Company's Adjusted EBITDA (as defined in the Credit Agreement) to funded indebtedness. The maximum total net leverage ratio begins at 4.75 to 1.0 and then gradually decreases from year-to-year down to 2.5 to 1.0 on or after June 30, 2026.

On December 7, 2020, Open Lending, LLC entered into the Second Amendment of the Credit Agreement (the "Second Amendment") which permits a one-time restricted payment in an amount not to exceed $37.5 million on or prior to January 31, 2021, subject to customary conditions.

The annual effective interest rate of the Term Loan after giving effect to the amortization of financing costs is 8.9%.

The Company's outstanding notes payable consists of the following:

	At December 31,	
	2020	**2019**
	(in thousands)	
Note payable	$ —	$ 3,334
Term loan	166,813	—
Less: debt issuance costs	(9,066)	(21)
Less: current portion of notes payable	(4,888)	(2,484)
Non-current notes payable, net of debt issuance costs	**$ 152,859**	**$ 829**

Future Principal Payments of Debt

The future scheduled principal payments of debt as of December 31, 2020 were as follows:

	Principal Payments
	(in thousands)
2021	$ 4,888
2022	5,100
2023	7,650
2024	8,500
2025	8,500
Thereafter	132,175
Total	**$ 166,813**

As of December 31, 2020 and for each period presented, we were in compliance with all debt covenants.

9. Contingent Consideration

As part of the Business Combination, Open Lending, LLC unitholders and certain Nebula equity holders were entitled to additional consideration in the form of shares of the Company's common stock to be issued when the Company's common stock price achieved certain market share price milestones within specified periods following the Closing. In addition, a portion of the Nebula sponsors' shares were subject to transfer restrictions unless market share price targets were achieved within the specified period.

Pursuant to the guidance under ASC 815, Derivatives and Hedging, the contingent consideration was classified as a Level 3 fair value measurement liability, and the increase or decrease in the fair value during the reporting period was recognized as expense or income accordingly. The fair value of the contingent consideration on the Closing Date and each subsequent reporting period was estimated using the Monte Carlo simulation of the stock prices based on historical and implied market volatility. The fair value of the contingent consideration on each vesting date (i.e. the date when each respective share price performance milestone was achieved) was based on the closing share price of the Company's publicly traded stock on the vesting date.

Founders Shares Subject to Transfer Restrictions

Immediately following the consummation of the Business Combination, 3,437,500 shares of common stock issued and outstanding held by Nebula Holdings, LLC and its affiliates were subject to transfer restrictions (the “Lock-up Shares”). The holder of the Lock-up Shares could not sell, transfer or otherwise dispose of their respective shares until the respective lock-up provisions were achieved as described further below. The Lock-up Shares had full ownership rights including the right to vote and receive dividends and other distributions thereon. The Lock-up Shares would be released from the transfer restrictions upon achieving certain market share price milestones as follows:

1) The 3,437,500 shares would be released from the lock-up restriction and no longer subject to forfeiture if the daily volume weighted average price (“VWAP”) of the Company’s common stock was greater than or equal to $12.00 for one-half of the Lock-up Shares and $14.00 per share for one-half of the Lock-up Shares, respectively, for 20 trading days over a 30-trading day period at any time within seven years after the Closing.
2) The Lock-up shares would be released from the lock-up restrictions on the date the Company underwent a change of control as defined in the Business Combination Agreement.

Contingently Issuable Shares

Pursuant to the Business Combination Agreement, Open Lending, LLC’s unitholders would be able to receive up to 22,500,000 shares of common stock (the “Contingency Consideration”) contingent upon achieving certain market share price milestones within a period of 42 months post Business Combination. The Company would issue 7,500,000 shares of common stock when each of the following conditions was met, respectively:

1) the VWAP was greater than or equal to $12.00 over any 20 trading days within any 30-trading day period prior to or as of the 24th month of the Closing;
2) the VWAP was greater than or equal to $14.00 over any 20 trading days within any 30-trading day period prior to or as of the 30th month of the Closing; and
3) the VWAP was greater than or equal to $16.00 over any 20 trading days within any 30-trading day period prior to or as of the 42nd month of the Closing;

In connection with the Business Combination, certain Nebula equityholders would be able to receive up to 1,250,000 earn-out shares of common stock (the “Earn-out Consideration”) contingent upon achieving certain market share price milestones within a period of 30 months post Business Combination. The Company would issue 625,000 shares of common stock when each of the following conditions is met, respectively:

1) the VWAP was greater than or equal to $12.00 over any 20 trading days within any 30-trading day period prior to or as of the 24th month of the Closing; and
2) the VWAP was greater than or equal to $14.00 over any 20 trading days within any 30-trading day period prior to or as of the 30th month of the Closing;

The Contingency Consideration and the Earn-out Consideration shares would vest immediately in the event of a change of control as defined in the Business Combination Agreement.

Settlement of Contingent Consideration

On July 10, 2020, the daily VWAP of the Company’s common stock had been greater than $12.00 per share for 20 trading days within a 30-trading day period, which triggered the vesting of 7,500,000 Contingency Consideration shares and 625,000 Earn-out Consideration shares. On July 15, 2020, the daily VWAP of the Company's common stock had been greater than $14.00 per share for 20 trading days within a 30-trading day period, which triggered the vesting of an additional 7,500,000 Contingency Consideration shares and 625,000 Earn-out Consideration shares. On August 11, 2020, the daily VWAP of the Company's common stock had been greater than $16.00 per share for 20 trading days within a 30-trading day period, which triggered the vesting of an additional 7,500,000 Contingency Consideration shares.

In addition, upon achievement of the daily VWAP milestones of both $12.00 per share and $14.00 per share discussed above, 3,437,500 Lock-up Shares were released from the lock-up restrictions and the holders of these shares were no longer restricted from selling and/or transferring the shares.

In the three months ended September 30, 2020, 27,187,500 shares of common stock were issued or released in connection with these milestone achievements. Immediately prior to each vesting, the carrying amount of the contingent consideration liability on the balance sheet was marked to market, and the change of fair value was recorded in the statements of operations and comprehensive income (loss). Upon vesting, the contingent consideration liability was reclassified to equity, the vested shares were issued and recorded as common stock at a par value of $0.01 per share, and the incremental fair value amount was recorded as additional paid-in capital.

A reconciliation of changes in the liability related to contingent consideration during the year ended December 31, 2020 follows:

	(in thousands)
Fair value at June 10, 2020	**$ 347,089**
Change in fair value	131,932
Reclassification of shares to equity	(479,021)
Fair value at December 31, 2020	**$ —**

Upon inception, the initial estimated fair value of contingent consideration on June 10, 2020 of $347.1 million was recorded as a long-term liability in our consolidated balance sheet. The increase in contingent consideration fair value of $131.9 million during the year ended December 31, 2020 was recorded as a change in fair value of contingent consideration in the statements of operations and comprehensive income (loss). With the vesting of the contingent consideration shares during the year ended December 31, 2020, the contingent consideration liability was reclassified to equity, and accordingly $0.3 million was recorded to common stock and $478.7 million was recorded to additional paid-in capital.

10. Stockholders' Equity (Deficit)

On June 11, 2020, Open Lending Corporation's common stock began trading on the NASDAQ under the symbol "LPRO." Pursuant to the terms of the Amended and Restated Certificate of Incorporation, the Company is authorized and has available for issuance the following shares and classes of capital stock, each with a par value of $0.01 per share: (i) 550,000,000 shares of common stock; (ii) 10,000,000 shares of preferred stock. Immediately following the Business Combination, there were 91,849,909 shares of common stock with a par value of $0.01, and 9,166,659 warrants outstanding. As discussed in Note 3 "*Business Combination*", the Company has retroactively adjusted the shares issued and outstanding prior to June 10, 2020 to give effect to the exchange ratio established in the Business Combination Agreement to determine the number of shares of common stock into which they were converted.

In connection to the Business Combination, on July 1, 2020, the Company filed a Registration Statement on Form S-1 to register 52,916,659 shares of common stock for the issuance by the Company of (i) up to an aggregate of 23,750,000 shares of our common stock that may be issued as earn-out consideration upon certain triggering events and (ii) 9,166,659 shares of our common stock that may be issued upon exercise of warrants to purchase common stock at an exercise price of $11.50 per share of common stock, herein referenced as public warrants.

Underwritten Public Offering

On December 14, 2020, we completed an underwritten public offering of 9,500,000 shares of our common stock at a public offering price of $28.00 per share. All shares were sold by existing stockholders, including Nebula Holdings, LLC and its affiliates, Bregal Sagemount and certain executive officers of the Company. The selling stockholders also granted the underwriters a 30-day option to purchase up to 1,425,000 additional shares of common stock. We did not sell any shares and did not receive any of the proceeds of the offering.

Share Repurchase

Pursuant to a Stock Repurchase Agreement, dated as of December 7, 2020, between Open Lending and the selling stockholders, we repurchased from the selling stockholders an aggregate number of 1,395,089 shares of our common stock totaling $37.5 million at the same per share price paid by the underwriters to the selling stockholders in the offering. The $37.5 million stock repurchase was recorded to treasury stock in December of 2020.

Common Stock

In conjunction with the Business Combination, Nebula obtained commitments from certain investors (collectively, the "PIPE Investors") to purchase shares of Nebula Class A common stock, which were converted into 20,000,000 Private Investment in Public Entity ("PIPE") shares for a purchase price of $10.00 per share. Of the 20,000,000 PIPE shares, 11,500,000 shares were held by other institutional investors and 8,500,000 shares were held by Nebula Holdings, LLC and its affiliates. On the Closing Date, the Company had 91,849,909 shares of common stock outstanding, which excluded 3,437,500 shares issued and outstanding that were subject to certain lock-up and forfeiture arrangements pursuant to the Founder Support Agreement, dated as of January 5, 2020 (as amended by that certain Amendment No.1, dated March 18, 2020, and that certain Amendment No.2, dated May 13, 2020), by and among Nebula, ParentCo, Open Lending, LLC, Nebula Holdings, LLC, Adam H. Clammer, James H. Greene, Jr ., Rufina Adams, David Kerko, Frank Kern, James C. Hale and Ronald Lamb.

During the twelve months December 31, 2020, the Company issued a total of 32,910,776 shares of common stock related to contingent consideration and exercised warrants, released 3,437,500 shares of common stock from lock-up restrictions, and repurchased 1,395,089 shares of common stock during our underwritten offering in December of 2020. As a result of these events, Company's outstanding common stock increased from 91,849,909 on the Closing Date to 126,803,096 shares as of December 31, 2020.

Preferred Stock

As of December 31, 2019, Open Lending, LLC had 29,058,266 shares of no par value Series A and Series B preferred units outstanding and 21,906,852 shares of redeemable convertible Series C preferred units, all of which were convertible on a 1:1 basis with Open Lending, LLC common units. As a result of their redemption feature, the Series C preferred units were classified as temporary equity outside of Open Lending, LLC's permanent equity and valued at their redemption amount at period end, which was $304.9 million, and $141.5 million at December 31, 2019 and 2018, respectively. Upon the Closing, the preferred units outstanding were converted into common stock of the Company at the exchange rate established in the Business Combination Agreement, par value $0.01 per share.

As of December 31, 2019, the outstanding preferred units of Open Lending, LLC were as follows:

	Series	Units Authorized	Units Issued and Outstanding	Per Unit Liquidation Preference	Aggregate Liquidation Preference	Per Unit Initial Conversion Price
		(In thousands, except unit and per unit data)				
Non-Redeemable Preferred Units	A	9,941,227	9,941,227	$ 0.50	$ 4,971	$ 0.25
Non-Redeemable Preferred Units	B	19,117,039	19,117,039	$ 0.50	$ 9,559	$ 0.25
Redeemable Preferred Units	C	21,906,852	21,906,852	$ 1.83	$ 40,090	$ 1.83
		50,965,118	**50,965,118**			

The number of preferred units presented on the Balance Sheet and Statement of Stockholders Equity (Deficit) as of December 31, 2019 has been retroactively restated to reflect conversion to Open Lending Corporation's common stock as a result of the Business Combination. The rights, preferences and privileges of both the redeemable and non-redeemable preferred units were as follows:

Voting Rights

Each holder of preferred unit was entitled to the number of votes equal to the number of common units into which each preferred unit is convertible.

Non-liquidation Distribution

The holders of preferred units were entitled to receive distributions. Such distributions are payable when and if declared by the Board of Directors. The holders of Series C Preferred Units were entitled to receive distributions prior and in preference, to any payment of any distribution to other preferred units and common units. Specifically, the holders of Series C Preferred Units were entitled to receive a preferred return equal to 2.5% per annum, accruing daily, on the Series C Contribution Amount, as defined as the "Preferred Return", until such time as the holders of Series C Preferred Units receive Preferred Return distributions totaling an aggregate of $100 million. Distributions declared in excess of the Preferred Return for Series C preferred units would be distributed among the holder of preferred units and common units pro rata on an as-converted basis (including the Series C Preferred Units). The distributions declared by the Board of Directors and made to the preferred units in 2020, 2019 and 2018 are provided in the below table.

	Non-Redeemable Preferred Units		Redeemable Preferred Units
Distributions	**Series A**	**Series B**	**Series C**
		(in thousands)	
For the years ended December 31,			
2018	$ 3,500	$ 6,789	$ 9,066
2019	$ 4,813	$ 9,252	$ 11,058
2020	$ 18,098	$ 34,802	$ 40,689

Conversion

Each preferred unit was convertible, at the option of the holder, according to a conversion ratio, which was subject to adjustment for dilutive unit issuance. The total number of common units into which the preferred units could be converted was determined by dividing the initial conversion price by the then-applicable conversion price, as shown in the table above. Preferred Units could not be reissued upon conversion to common units. Open Lending, LLC had reserved sufficient common units for issuance upon conversion of preferred units.

The Series A and Series B Preferred Units would automatically convert to common units if (1) at any time the Open Lending, LLC effected an underwritten public offering, or (2) on the date upon which 80% of the respective Series A or Series B Preferred Units had been converted to Common Units.

The Series C Preferred Units automatically converted into common units at the then-applicable conversion price if any time (1) Open Lending, LLC effected an initial public offering with aggregate proceeds of no less than $75 million and the price paid by public was no less than $4.56 per unit, or (2) upon the written election of a Series C Preferred Units majority.

Redemption

At the election of a Series C Preferred Units majority, as defined, each of the Series C Preferred Units was subject to redemption at a price per unit equal to the greater of (a) the Series C Liquidation Preference Payment (as defined in the below section) and (b) the fair market value of the Class A Common Units into which such Series C Preferred Units was convertible, at any time between June 23, 2020 and December 15, 2021. Series A and Series B Preferred Units were not redeemable by the Company or the holders. The redemption feature caused the Series C Preferred Unit to be classified as temporary equity outside of the Company's permanent equity. The Company valued its Series C Preferred Units at their redemption amount at period end, which was $304.9 million and $141.5 million at December 31, 2019 and 2018, respectively. During the year ended December 31, 2020, the redemption rights were removed from the Series C redeemable convertible preferred units upon conversion to Class A common stock as a result of the Business Combination, and as such, the Company no longer has outstanding convertible preferred stock on its balance sheets.

Liquidation

In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the assets of the Company would be paid and distributed first to creditors. The Series C Preferred Units rank senior to the Series A and Series B Preferred Units, and the Series A and Series B Preferred Units ranked senior to the common units. The Series C Preferred Units would receive an amount equal to the sum of the unpaid portion of the Preferred Return and $1.8259 per Series C Preferred Unit, plus all declared and unpaid distributions (the "Series C Liquidation Preference Payment"), payable in preference and priority to any payments made to holders of the then outstanding Series A and Series B Preferred Units and Common Units. The holders of Series A and Series B Preferred Units would receive an amount equal to $0.50 per preferred unit plus all declared and unpaid distributions (the "Series A and Series B Liquidation Preference Payments"), payable in preference and priority to any payments made to holders of the then outstanding common units.

Public Warrants

Upon the Closing, there were 9,166,659 outstanding public warrants to purchase shares of the Company's common stock that were issued by Nebula with other consideration prior to the Business Combination. The warrants were set to expire on June 10, 2025, at 5:00 p.m., New York City time, or earlier upon redemption or liquidation.

Each whole warrant entitled the holder to purchase one whole share of the Company's common stock at a price of $11.50 per share, subject to adjustments. The warrants were exercisable 30 days after the completion of the Business Combination. Once the public warrants became exercisable, the Company had the right to redeem the outstanding warrants in whole and not in part at a price of $0.01 per warrant (the "Redemption Price") upon a minimum of 30 days' prior written notice of redemption, if and only if the last sale price of the Company's common stock matched or exceeded $18.00 per share for any 20 trading days within a 30-trading day period ending on the third trading day prior to the date on which the Company sent the notice of redemption to the warrant holders ("Redemption Right").

On September 11, 2020, the Company provided notice of redemption that all public warrants may be exercised by the holders thereof until 5:00 p.m. New York City time on October 13, 2020 (the "Redemption Date"). Any public warrants that remained unexercised following 5:00 p.m. New York City time on October 13, 2020 would no longer be exercisable and would be redeemed by the Company at the Redemption Price.

During the year ended December 31, 2020, 9,160,776 public warrants were exercised by the holders, from which the Company received $105.3 million in cash proceeds.

Dividend

Any decision to declare and pay dividends in the future will be made at the sole discretion of Open Lending Corporation's Board of Directors and will depend on, among other things, results of operations, cash requirements, financial condition, contractual restrictions and other factors that Open Lending Corporation's Board of Directors may deem relevant. In addition, the Company's ability to pay dividends will be limited by covenants in its existing indebtedness and may be limited by the agreements governing other indebtedness that it or its subsidiaries incur in the future.

11. Revenue

The Company accounts for a contract with a customer when both parties have approved the contract and are committed to perform their respective obligations, each party's rights and payment terms can be identified, the contract has commercial substance, and it is probable the Company will collect substantially all of the consideration it is entitled to. Revenue is recognized when, or as, performance obligations are satisfied by transferring control of a promised product or service to a customer.

Revenue From Contracts With Customers

The Company generates revenue primarily by providing services to lending institutions and insurance carriers. The following is a description of the principal activities from which the Company generates revenue.

Revenue from contracts with lending institutions

Program fees are derived from contracts with automotive lenders. Through the Company's proprietary Lenders Protection Program, we enable automotive lenders to make loans that are insured against certain credit losses from defaults. The Company generates program fee revenue from our proprietary, cloud-based software platform that enables automotive lenders, OEM captive finance companies and other financial institutions (collectively "lending institutions") to approve loans to traditionally underserved non-prime or near-prime borrowers.

The Company receives program fees for providing loan decision-making analytics solutions and automated issuance of credit default insurance with third-party insurance providers. The Company's performance obligation is complete when a loan is certified through LPP and is issued by the lending institution. Program fee contracts contain a single performance obligation, which consist of a series of distinct services that are substantially the same with the same pattern of transfer to customers.

Program fees are based on a percentage of the initial principal amount of the loans processed by the Company. There are two types of payment arrangements: 1) a single pay program fee is due based on the volume of loans originated by the lending institution in a calendar month; or 2) a monthly pay program fee is due in equal monthly installments within 12 months of loan origination.

We bill the customer for an amount calculated based on the actual number of loans processed in a calendar month, which corresponds directly with the value of service transferred to the customer in that month.

Revenue from contracts with insurance carriers

We have producer agreements with two insurance carriers from which we earn profit-share revenue and claims administration service fees.

In the profit share arrangement, the Company facilitates placement of credit default insurance policies with lending institutions on behalf of our insurance partners. Profit share revenue represents our participation in the underwriting profit of our third-party insurance partners who provide lenders with credit default insurance on loans the automotive lenders make using our LPP. We receive a percentage of the aggregate monthly insurance underwriting profit. Monthly insurance underwriting profit is calculated as the monthly earned premium less expenses and losses (including reserves for incurred but not reported losses), with losses accrued and carried forward for future profit share calculations. The Company fulfills its performance obligation upon placement of the insurance, at which point the Company is entitled to the profit share of all future net premiums earned by the insurance carrier on the policy.

To determine the profit share revenue, we use forecasts of loan-level earned premium and insurance claim payments. These forecasts are driven by the projection of loan defaults, prepayments and severity rates. These assumptions are based on our observations of the historical behavior for loans with similar risk characteristics. The assumptions also take consideration of the forecast adjustments under various macroeconomic conditions and the current mix of the underlying portfolio of our insurance partners. To the extent these assumptions change, our profit share revenue will be adjusted.

In accordance with ASC 606, Revenue from Contracts with Customers, at the time of the placement of a policy by an insurance company, we estimate the variable consideration based on undiscounted expected future profit share to be received from the insurance carriers, and we apply economic stress factors in our forecast to constrain our estimation of transaction price to an amount that we believe that a significant reversal in the cumulative amount of revenue is not probable of occurring when the uncertainty is resolved.

Claims administration service fees are generated from us acting as a third-party administrator to process and adjudicate the credit default insurance claims on behalf of the insurance companies. In this arrangement, the performance obligation to provide claims administration services is generally satisfied over time, with the customer simultaneously receiving and consuming the benefits as we satisfy our performance obligations.

Contract Balances

Contract assets balances for the periods indicated below were as follows:

	Contract Assets			
	Profit Share	TPA Fee	Program Fee	Total
	(in thousands)			
Beginning balance as of January 1, 2019	**$ 37,734**	**$ 438**	**$ 3,088**	**$ 41,260**
Increase of contract assets due to new business generation	48,181	3,142	36,667	87,990
Adjustment of contract assets due to estimation of revenue from performance obligations satisfied in previous periods	4,857	—	—	4,857
Receivables transferred from contract assets upon billing the lending institutions	—	—	(34,746)	(34,746)
Payments received from insurance carriers	(33,405)	(3,005)	—	(36,410)
Ending balance as of December 31, 2019	**57,367**	**575**	**5,009**	**62,951**
Increase of contract assets due to new business generation	62,032	4,505	43,995	110,532
Adjustment of contract assets due to estimation of revenue from performance obligations satisfied in previous periods	(1,640)	—	—	(1,640)
Receivables transferred from contract assets upon billing the lending institutions	—	—	(43,661)	(43,661)
Payments received from insurance carriers	(34,582)	(4,258)	—	(38,840)
Ending balance as of December 31, 2020	**$ 83,177**	**$ 822**	**$ 5,343**	**$ 89,342**

Changes in our contract assets primarily result from the timing difference between our performance and the customer's payment. We fulfill our obligation under a contract with a customer by transferring services in exchange for consideration from the customer. We recognize contract assets when we transfer services to a customer, recognize revenue for amounts not yet billed, and the right to consideration is conditional on something other than the passage of time. Accounts receivables are recorded when the customer has been billed or the right to consideration is unconditional.

For performance obligations satisfied in previous periods, we evaluate and update our profit share revenue forecast on a quarterly basis and adjust contract asset accordingly. In 2020 and 2019, contract asset adjustments attributable to profit share revenue forecast adjustments was $(1.6) million and $4.9 million.

During the first six months of 2020, the Company recorded a $(13.0) million reduction in its contract asset estimate due to lowered expectations on anticipated profit share revenue from loans certified in previous periods, primarily as a result of changes in facts and circumstances arising from the COVID-19 pandemic. During the final six months of 2020, the profit share related to historical vintages as a result of better-than-expected performance of the portfolio due to enhanced underwriting standards and corresponding lower-than-expected defaults and claims, yielded an $11.3 million increase in the Company's contract asset estimate. The net impact was a $(1.6) million reduction in the Company's contract asset estimate as of December 31, 2020.

As of December 31, 2020 and 2019, contract asset consisted of $50.4 million and $29.8 million, respectively, as the current portion to be received within one year and $39.0 million and $33.2 million, respectively, in the long-term portion to be received beyond one year.

Contract Costs

The fulfillment costs associated with our contracts with customers do not meet the criteria for capitalization and therefore are expensed as incurred.

Disaggregation of Revenues

We disaggregate revenues by revenue source (i.e. program fee, profit share and claims administration service fee), and the level of disaggregation is presented in the consolidated statements of operations and comprehensive income (loss).

ASC 606 Adoption Transition Adjustment

We applied ASC 606 on January 1, 2019 using the modified retrospective method for all contracts in effect but not completed as of the date of the adoption. As a result of the modified retrospective method, the following adjustments were made to the consolidated balance sheet as shown in the below selected condensed consolidated balance sheet line items as of January 1, 2019.

	Ending Balance as of December 31, 2018	Adjustments due to ASC 606	Opening Balance as of January 1, 2019
		(in thousands)	
Assets			
Current assets	$ 24,455	$ 9,847	$ 34,302
Non-current assets	429	22,921	23,349
Liabilities			
Current liabilities	13,845	—	13,844
Non-current liabilities	3,313	—	3,313
Equity			
Accumulated deficit	$ (139,810)	$ 32,768	$ (107,042)

Impact of ASC 606 on Net Revenue and Balance Sheet

As the Company adopted the new revenue guidance ASC 606 under the modified retrospective method, the Company is required to present what the Company's revenues would have been under the previous revenue guidance (ASC 605). The following table compares net revenue for the periods presented to the pro forma amounts had the previous ASC 605 guidance been in effect for the year ended December 31, 2019:

	Year ended December 31, 2019		
	Balances without new revenue standard	Effect of change	As reported
		(in thousands)	
Program fee	$ 36,667	$ —	$ 36,667
Profit share	33,807	19,231	53,038
Claims administration service fee	3,142	—	3,142
Total revenue, net	**$ 73,616**	**$ 19,231**	**$ 92,847**

	Year ended December 31, 2019		
	Pro forma as if ASC 605 was in effect	Effect of change	As reported
		(in thousands)	
Assets			
Unbilled revenue	$ 10,793	$ (10,793)	$ —
Current contract assets	—	29,782	29,782
Total current assets	**10,793**	**18,989**	**29,782**
Non-current contract assets	—	33,169	33,169
Total	**$ 10,793**	**$ 52,158**	**$ 62,951**

12. Share-Based Compensation

Class B Common Unit Incentive Plan (the "Class B Plan")

Prior to the closing of the Business Combination, Open Lending, LLC maintained a Class B Common Unit Incentive Plan, which was a form of long-term compensation that provided for the issuance of Class B common units to service providers for purposes of retaining them and enabling such individuals to participate in the long-term growth and financial success of Open Lending, LLC. The Class B common units were a special class of common units structured to qualify as "profits interest" for tax purposes. The aggregated amount of Class B common units was limited to 14,241,344, with the aggregate number of Class B common units available for issuance to non-employees not to exceed 995,039.

The Class B common units issued under the Class B Plan generally vest, subject to continued services to Open Lending LLC and its subsidiaries, based on a 3-year or 3.25-year vesting schedule, with 25% of the units vesting on the grant date and equal quarterly vesting installments thereafter. In connection with the Business Combination, the Board of Managers of Open Lending, LLC approved a modification to the awards granted under the Class B Plan to allow accelerated vesting of all granted units immediately prior to the Business Combination. On the date of the Closing, the Class B common units were converted into shares of common stock of Open Lending Corporation on the exchange ratio established in the Business Combination Agreement, and the accelerated vesting of 571,983 awards resulted in $2.2 million of non-cash share-based compensation expense.

A summary of the status of the Class B common units award activity for the years ended December 31, 2020, 2019 and 2018 is presented in the table below. The number of Class B common units that vested during the years ended December 31, 2020, 2019 and 2018 was 929,160, 1,496,521 and 1,814,594, respectively. There were 0, 0 and 2,813 units forfeited in the years ended December 31, 2020, 2019 and 2018 respectively.

	Granted Units	Vested Units	Non-vested units
Balance as of January 1, 2018	**12,814,203**	**9,891,696**	**2,922,507**
Granted	1,317,768	—	1,317,768
Vested	—	1,814,594	(1,814,594)
Forfeiture	(2,813)	(2,813)	—
Balance as of December 31, 2018	**14,129,158**	**11,703,477**	**2,425,681**
Granted	—	—	—
Vested	—	1,496,521	(1,496,521)
Forfeiture	—	—	—
Balance as of December 31, 2019	**14,129,158**	**13,199,998**	**929,160**
Granted	—	—	—
Vested	—	929,160	(929,160)
Forfeiture	—	—	—
Balance as of June 10, 2020	**14,129,158**	**14,129,158**	**—**
Conversion to common stock upon Business Combination	(14,129,158)	(14,129,158)	—
Balance as of December 31, 2020	**—**	**—**	**—**

The grant date fair value of the Class B Plan share-based awards was based on a waterfall model set-up using the Monte-Carlo simulation framework, with inputs for the equity value of Open Lending, LLC, expected equity volatility, expected term of the awards, risk-free interest rate and expected preferred and common distributions.

The equity value of the Open Lending, LLC was determined by applying certain weightings to the income approach (specifically discounted cash flow method) and market approaches (i.e. guideline comparable company method, guideline transaction method, change in market capitalization method, and/or change in market multiples method). The selected weightings for each of these approaches was determined based on the relative reliability of the indicated equity value. As Open Lending, LLC did not have publicly traded equity, the expected equity volatility for Open Lending, LLC was estimated by reference to the average historical and implied volatilities of comparable companies calculated using the Merton model. The industry peer group used in the market approaches and in the volatility calculations included small, mid, and/or large capitalization companies in industries similar to Open Lending, LLC and taking into account the similarity in business model, size, stage of lifecycle, and financial leverage. The expected term represented the period of time based on an expected liquidity event (i.e. merger or IPO). The risk-free interest rate used in the analysis was based on the U.S. Treasury yield for a term consistent with the selected term.

	Class B1(b)	Class B2(a)	Class B2(b)	Class B2(c)	Class B2(d)
Grant Date	January 31, 2016	December 1, 2016	November 22, 2017	March 15, 2018	August 6, 2018
Equity Valuation Date	January 31, 2016	January 31, 2016	December 31, 2017	December 31, 2017	August 6, 2018
Volatility	45%	45%	40%	40%	40%
Term	4.92	4.92	3.00	3.00	2.40
Risk Free Rate	1.3%	1.3%	2.0%	2.0%	2.7%
Exit Date	December 31, 2020	December 31, 2020	December 31, 2020	December 31, 2020	December 31, 2020
DLOM – Common	13%	13%	18%	18%	14%
Grant Date Fair Value	$0.75	$0.57	$2.85	$2.85	$4.00

The fair value of the Class B award units that vested during the years ended December 31, 2020, 2019 and 2018 was $2.7 million, $2.0 million and $2.5 million respectively.

During the years ended December 31, 2020, 2019 and 2018, share based compensation expense related to the Class B plan was allocated to cost of services, general and administrative, selling and marketing, research and development generally based on the functional responsibilities of the awarded unit holders of Open Lending, LLC (except the $2.2 million share-based compensation expense due to accelerated vesting in relation to the Business Combination, which was recognized fully in general and administrative expenses) in the accompanying consolidated statements of operations and comprehensive income (loss) as follows:

	Year Ended December 31,		
	2020	2019	2018
		(in thousands)	
Cost of services	$ 123	$ 100	$ 108
General and administrative	2,425	1,798	2,275
Selling and marketing	81	62	153
Research and development	46	24	36
Total	**$ 2,675**	**$ 1,984**	**$ 2,572**

2020 Stock Option and Incentive Plan (the "2020 Plan")

On June 9, 2020, Nebula's stockholders approved the 2020 Plan. The 2020 Plan provides for the grant of non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock units and other stock or cash-based awards. The Company has initially reserved 9,693,750, approximately 10% of the number of shares of its common stock outstanding upon the closing, as the "Initial Limit" for the issuance of awards under the 2020 Plan. The 2020 Plan provides that the number of shares reserved and available for issuance under the plan will automatically increase each January 1, beginning on January 1, 2021, by 4% of the outstanding number of shares of the Company's common stock on the immediately preceding December 31, or the "Annual Increase." This limit is subject to adjustment in the event of a stock split, stock dividend or other change in the Company's capitalization.

The following table provides information related to the incentive stock options and restricted stock awards granted during the year ended December 31, 2020:

	Restricted Stock Units		Stock Options	
	Number of Awards	**Weighted Average Fair Value at Grant Date**	**Number of Awards**	**Weighted Average Exercise Price**
Outstanding as of December 31, 2019	—	$ —	—	$ —
Granted	109,920	28.20	199,764	33.56
Vested/Exercised	—	—	—	—
Forfeited	—	—	—	—
Outstanding as of December 31, 2020	**109,920**	**$ 28.20**	**199,764**	**$ 33.56**

The outstanding stock options vest, subject to the continued employment of the grantees, in equal annual installments over four years following the grant date. The contractual term for the exercisability of the stock options is ten years from the grant date. The outstanding restricted stock units are service-based only and vest based on schedules as set forth in the respective award agreements, generally over four years.

The aggregate intrinsic value of outstanding stock options at December 31, 2020 was as follows:

	Intrinsic Value of Stock Options
	(in thousands)
Vested and exercisable	$ —
Unvested	280
Total outstanding	**$ 280**

The share-based compensation expense of the equity awards granted under the 2020 Plan was recognized based on the grant date fair value and amortized over each award's vesting period using the straight-line attribution approach. The Company used the closing price of its publicly traded common stock on the grant date of the restricted stock units awards to calculate the fair value. The Company estimated the fair value of each stock option on the date of grant using a Black–Scholes option-pricing model, applying the following assumptions:

Grant date	12/30/2020
Strike price	\$33.56
Expected life (a)	6.25
Weighted average time to vest (b)	2.50
Expected dividend yield (c)	—
Expected volatility rate (d)	50.00%
Risk-free interest rate (e)	0.55%
Weighted average option grant date fair value	\$15.51

(a). The expected life was estimated using the "Simplified Method" which utilizes the midpoint between the vesting date and the end of the contractual term. The Company used the simplified method due to the lack of sufficient historical exercise data to provide a reasonable basis upon which to otherwise estimate the expected life of the stock options.

(b). The weighted average time to vest was calculated using the "Simplified Method" by applying 25% to each vesting years.

(c). At the grant date, no dividends were expected to be paid over the contractual term of the stock options granted, based on the Company's dividend policy, resulting in the use of a zero dividend rate.

(d). The expected volatility rate was based on the average of implied and observed historical volatility of comparable companies.

(e). The risk-free interest rate was interpolated from the five-year and seven-year Constant Maturity Treasury rate published by the United States Treasury as of the date of the grant.

The unrecognized share-based compensation expense at December 31, 2020 was as follows:

		Unrecognized Expense	Weighted Average Amortization Period
		(in thousands)	
Restricted stock	$	2,952	3.58
Stock options		3,094	4.00
Total unrecognized share-based compensation expense	**$**	**6,046**	**3.85**

During the year ended December 31, 2020, the share-based compensation expense related to the 2020 Plan was $0.2 million, which was allocated to general and administrative in operating expenses in the accompanying consolidated statements of operations and comprehensive income (loss).

13. Net Income (Loss) Per Share

Pursuant to the Restated and Amended Certificate of Incorporation and as a result of the reverse recapitalization, the Company has retrospectively adjusted the weighted average shares outstanding prior to June 10, 2020 to give effect to the exchange ratio used to determine the number of shares of common stock into which they were converted.

Basic net income (loss) per share is computed based on the weighted average number of shares of common stock outstanding during the period. Diluted net income (loss) per share is computed based on the weighted average number of common shares outstanding plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method.

The following table sets forth the computation of basic and diluted net income (loss) per share attributable to common stockholders for the years ended December 31, 2020, 2019 and 2018:

	Year Ended December 31,		
	2020	**2019**	**2018**
	(int thousands, except shares and per share data)		
Basic net income (loss) per share:			
Numerator			
Net income (loss)	**$ (97,564)**	**$ 62,544**	**$ 28,279**
Preferred distribution to redeemable convertible preferred units	(40,689)	(11,058)	(9,066)
Non-cash adjustments to redemption amount of the redeemable convertible preferred unis	47,537	(163,425)	(63,311)
Net loss attributable to common stockholders	**$ (90,716)**	**$ (111,939)**	**$ (44,098)**
Denominator			
Basic weighted-average common shares	82,908,772	37,631,052	37,631,052
Basic net loss per share attributable to common stockholders	**$ (1.09)**	**$ (2.97)**	**$ (1.17)**

Due to net losses incurred for the years ended December 31, 2020, 2019 and 2018, basic and diluted loss per share were the same, as the effect of all potentially dilutive securities would have been anti-dilutive. The following weighted average shares of the potentially dilutive outstanding securities for the years ended December 31, 2020, 2019 and 2018 were excluded from the computation of diluted net loss per share because their effect would have been anti-dilutive for the periods presented.

	Year Ended December 31,		
	2020	**2019**	**2018**
Redeemable public warrants	836,474	—	—
Contingency consideration	3,018,699	—	—
Retroactively restated redeemable convertible Series C preferred units	6,281,025	14,278,603	14,278,603
Total	**10,136,198**	**14,278,603**	**14,278,603**

The Company's pre-merger LLC membership structure included several different types of LLC interests including ownership interests and profits interests. The Company analyzed the calculation of earnings per unit by using the two-class method for the years ended December 31, 2019 and 2018 and determined that it resulted in values that would not be comparable to the same periods in 2020 and therefore not meaningful to the users of these consolidated financial statements. As a result, the Open Lending, LLC's net income (loss) per share information has not been presented for any period.

14. Fair Value of Financial Instruments

Fair value is defined as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following table presents the carrying amounts and estimated fair values of the Company's financial instruments:

	At December 31,			
	2020		**2019**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
	(in thousands)			
Financial assets				
Cash and cash equivalents	$ 101,513	$ 101,513	$ 7,676	$ 7,676
Restricted cash	2,635	2,635	2,222	2,222
Accounts receivable	4,352	4,352	3,767	3,767
Interest Rate Swaps (Other assets)	—	—	9	9
Total	**$ 108,500**	**$ 108,500**	**$ 13,674**	**$ 13,674**
Financial liabilities				
Notes payable	157,747	157,747	3,313	3,313
Accounts payable	3,442	3,442	1,337	1,337
Accrued expenses	3,033	3,033	2,006	2,006
Income tax payable	1,640	1,640	$ —	
Total	**$ 165,862**	**$ 165,862**	**$ 6,656**	**$ 6,656**

The fair value of the financial instruments shown in the table above as of December 31, 2020 and 2019 represent the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between the market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflect the Company's own judgments about the assumptions that market participants would use in pricing asset or liability. Those judgments are developed by the Company based on the best information available in the circumstances, including expected cash flows and appropriately risk-adjusted discount rates, available observable and unobservable inputs.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- Cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses: The carrying amounts, at face value or cost plus accrued interest, approximate fair value because of the short maturity of these instruments.
- Restricted cash: Restricted cash relates to deposits held on behalf of insurance partners to settle insurance claims. The carrying amount of restricted cash approximates fair value because of the short maturity of this instrument.

- Interest rate swaps: The fair value is calculated as the present value of the estimated future cash flows. Estimates of future floating-rate cash flows are based on quoted swap rates, futures prices and interbank borrowing rates. Estimated cash flows are discounted using a yield curve constructed from similar sources and which reflects the relevant benchmark interbank rate used by market participants for this purpose when pricing interest rate swaps. The fair value estimate is subject to a credit risk adjustment that reflects the credit risk of the Company and of the counterparty; this is calculated based on credit spreads derived from current credit default swap or bond prices. The Company's interest rate swap was settled in March of 2020.
- Notes payable: The carrying amount of the Company's debt approximates its fair value due to its variable interest rate that is tied to the current LIBOR rate plus an applicable spread and consistency in our credit ratings.

Fair Value Hierarchy

The following table presents the placement in the fair value hierarchy of assets and liabilities that are measured at fair value on a recurring basis (including items that are required to be measured at fair value) at December 31, 2020 and 2019:

	December 31, 2020	Fair value measurements at reporting date using		
		Level 1	Level 2	Level 3
		(in thousands)		
Liabilities:				
Notes payable at fair value, net of debt issuance cost	$ 157,747	$ —	$ 157,747	$ —
Total	**$ 157,747**	**$ —**	**$ 157,747**	**$ —**

	December 31, 2019	Fair value measurements at reporting date using		
		Level 1	Level 2	Level 3
		(in thousands)		
Assets:				
Interest rate swaps at fair value	$ 9	$ —	$ 9	$ —
Total	**9**	**—**	**9**	**—**
Liabilities:				
Notes payable at fair value, net of debt issuance cost	3,313	—	3,313	—
Total	**$ 3,313**	**$ —**	**$ 3,313**	**$ —**

The Company's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of any level for the years ended December 31, 2020 and 2019.

The Company does not have any long-lived asset which is being measured at fair value on a recurring basis.

15. Commitments and Contingencies

Commitments

The following tables summarizes contractual obligations and commitments as of December 31, 2020:

	Payments due by Period				
	Total	**Less than 1 Year**	**1 - 3 Years**	**3 - 5 Years**	**More than 5 Years**
			(in thousands)		
Debt principal, interest and fees	$ 236,970	$ 17,438	$ 36,647	$ 38,584	$ 144,301
Operating lease obligations	7,475	774	1,763	1,865	3,073
Other contractual commitments	574	445	129	—	—
Total contractual obligations	**$ 245,019**	**$ 18,657**	**$ 38,539**	**$ 40,449**	**$ 147,374**

Debt Principal, Interest and Fees

Represents principal, estimated interest and fees on Notes payable. (See Note 8 "*Notes Payable*"). Since the Notes are subject to a floating rate, the estimated interest was based on the rate in effect during the last month of the fiscal year ended December 31, 2020.

Operating Lease Obligations

This relates to the lease of real property from third parties under non-cancelable operating leases. Total rent expense of $0.9 million, $0.6 million and $0.6 million was recognized for fiscal years 2020, 2019 and 2018, respectively. We recognize rent expense on a straight-line basis over the term of the lease, taking into account, when applicable, lessor incentives for tenant improvements. Deferred rent is recognized for the difference between the rent expense recognized on a straight-line basis and the payments made per the terms of the lease.

Other Contractual Commitments

Represents amounts payable to agreements related to information technology outsourcing services and other service agreements.

Office Space

On June 17, 2019, Open Lending, LLC executed a noncancellable operating lease agreement with G&I VII Barton Skyway, LP, a Delaware limited partnership ("Landlord") to lease its current office space located at 1501 South MoPac Expressway, Suite 450, Austin, Texas 78746 for a period of 100 months starting on October 1, 2020. The Company moved into the new office space on September 1, 2020, which is considered as the lease commencement date under ASC 842. The Company does not have a lease payment due until four months after the stated commencement date per the agreement. The lease provides us with an extension option for a period of 60 months beyond the end of the initial term, subject to specific conditions outlined in the agreement. Prior to its move-in to the new office, the Company had an operating lease agreement for its office space at 901 S. MoPac Expressway, Bldg. 1, Austin, Texas 78746, which ended on September 30, 2020.

Contingencies

As of December 31, 2020, the Company is not involved in any claim, proceeding or litigation which may be deemed to have a material adverse effect on our consolidated financial statements taken as a whole.

16. Related Party Transactions

Pursuant to a Stock Repurchase Agreement, dated as of December 7, 2020, between Open Lending and the selling stockholders, as part of the underwritten public offering as described above, we repurchased from the selling stockholders an aggregate number of 1,395,089 shares of our common stock totaling $37.5 million, at the same per share price paid by the underwriters to the selling stockholders in the offering.

On March 25, 2020, Ross Jessup, the CEO, borrowed $6.0 million from Open Lending, LLC in accordance with the promissory note in place and the loan was paid in full by Mr. Jessup on March 30, 2020, with proceeds received as result of the non-liquidating distribution paid by Open Lending, LLC to its members.

Open Lending. LLC incurred consulting expenses of approximately $0.7 million and $0.6 million in the years ended December 31, 2019 and 2018, respectively, with entities owned by members of our management team and board of directors. These expenses include consulting fees paid to EWMW, LP, owned by Sandy Watkins, former Chairman of Open Lending, LLC's board of directors, fees for marketing services provided by Objective Advisors, Inc., owned by the wife of John Flynn, Chairman and CEO of Open Lending, and human resource services rendered by HireBetter, LLC, which is owned by Kurt Wilkin, a former member of Open Lending, LLC's board of directors.

17. Retirement Plan

The Company has a 401(k)-profit sharing plan (the "401(k) Plan") for the benefit of all employees who have attained the age of 21 years old and have completed 60 days of service. Eligible employees may contribute to the 401(k) Plan subject to certain limitations. Under the provisions of the 401(k) Plan, the Company will make a safe harbor non-elective contribution equal to 3% of each participant's compensation and may make discretionary matching contributions, as well as profit sharing contributions, as determined by management. The Company made profit sharing contributions of $0, $33,600 and $33,000 in 2020, 2019, and 2018, respectively. The Company made safe harbor non-elective contributions of $377,724, $292,204, and $230,146 to the 401(k) Plan during the years ended December 31, 2020, 2019, and 2018, respectively.

18. Income Taxes

During the years ended December 31, 2020, 2019 and 2018, the Company recognized income tax expense (benefit) of $6.6 million, $(30,000) and $37,000 resulting in effective tax rates of (7.2)%, (0.1)% and 0.1%, respectively. The Company's income tax expense for the year ended December 31, 2020 differs from amounts computed by applying the U.S. federal statutory tax rate of 21% primarily due to the impact of the change in fair value of the carrying amount of the contingent consideration being recorded in the Company's statements of operations and comprehensive income (loss). The Company's income tax expense for the years ended December 31, 2019 and 2018 differs from amounts computed by applying the U.S. federal statutory tax rate of 21% primarily due to the flow-thru entity structure prior to the Business Combination.

Net deferred tax assets totaling $89.9 million were recorded as of June 10, 2020 in relation to the Business Combination, of which $88.1 million was recorded to other non-current liabilities to reflect the Company's estimated liability associated with the Tax Receivable Agreement, dated June 10, 2020, by and among Nebula, the Blocker, Blocker's sole shareholder, and Open Lending, LLC and the excess amount of $1.9 million was recorded to additional paid-in capital.

The Company's income tax expense (benefit) attributable to operations are as follows:

	Year Ended December 31,		
	2020	**2019**	**2018**
	(in thousands)		
Current tax expense:			
Federal	$ 1,234	$ —	$ —
State	605	(30)	37
Deferred tax expense (benefit):			
Federal	7,463	—	—
State	(2,729)	—	—
Income tax expense	**$ 6,573**	**$ (30)**	**$ 37**

The components of the Company's income tax expense are as follows:

	Year Ended December 31,					
	2020		2019		2018	
	(in thousands)	*(rate reconciliation)*	*(in thousands)*	*(rate reconciliation)*	*(in thousands)*	*(rate reconciliation)*
Income tax benefit computed at the statutory rate	**$ (19,102)**	**21.0 %**	**$ 13,128**	**21.0 %**	**$ 5,946**	**21.0 %**
State income taxes	(1,706)	1.9 %	(30)	(0.1)%	37	0.1 %
Income not subject to federal taxes	—	— %	(13,128)	(21.0)%	(5,946)	(21.0)%
Contingent consideration	27,706	(30.5)%	—	— %	—	— %
Other	(325)	0.4 %	—	— %	—	— %
Income tax expense	**$ 6,573**	**(7.2)%**	**$ (30)**	**(0.1)%**	**$ 37**	**0.1 %**

The components of the Company's deferred tax assets and liabilities are as follows:

	Year Ended December 31,	
	2020	2019
	(in thousands)	
Deferred tax assets		
Investment in Lender's Protection, LLC	$ 85,219	$ —
Operating lease liability	1,394	—
Share-based compensation	37	—
Other	21	—
Deferred tax assets	**$ 86,671**	**$ —**
Deferred tax liabilities		
Operating lease asset	$ (1,453)	$ —
Deferred tax liabilities	**$ (1,453)**	**$ —**
Net deferred tax assets	**$ 85,218**	**$ —**

As of December 31, 2020, the Company has assessed whether it is more likely than not that our deferred tax assets will be realized. In making this determination, the Company considers all available positive and negative evidence and makes certain assumptions. The Company considers, among other things, the reversal of its deferred tax liabilities, the overall business environment, its historical earnings and losses, current industry trends and its outlook for future years. The Company believes it is more-likely-than-not all deferred tax assets will be realized and has not recorded any valuation allowance as of December 31, 2020.

On March 27, 2020, the President of the United States signed into law the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), an economic stimulus package in response to the COVID-19 pandemic. The CARES Act contains several corporate income tax provisions intended to provide relief to taxpayers, most substantial of which relate to temporary net operating loss ("NOL") carryback periods, temporary reductions in the limitation of business interest expense deductions, employee retention tax credits, and payroll tax relief, among other changes. As of December 31, 2020, the CARES Act provisions did not have a material impact on the Company's current year provision or the consolidated financial statements.

Management of the Company has evaluated the aggregate exposure for uncertain tax positions for all open tax years and concluded that the Company and its predecessor have no material uncertain tax positions as of December 31, 2020 or for any open tax years. Tax penalties and interest are reflected in the consolidated statements of operations and comprehensive income (loss) in other expenses. The Company has not recorded any penalties or interest related to uncertain tax positions as of December 31, 2020 or for any open tax years.

19. Tax Receivable Agreement

In connection with the Business Combination, the Company entered into the Tax Receivable Agreement. The Tax Receivable Agreement generally provides for the payment by the Company to the Open Lending LLC unitholders and Blocker's sole shareholder (the "TRA holders"), as applicable, of 85% of the net cash savings, if any, in U.S. federal, state and local income tax that the Company actually realizes (or are deemed to realize in certain circumstances) in periods after the Closing as a result of: (i) certain tax attributes of Blocker and/or Open Lending, LLC that existed prior to the Business Combination and were attributable to the Blocker; (ii) certain increases in the tax basis of Open Lending, LLC's assets resulting from the Transactions; (iii) imputed interest deemed to be paid by the Company as a result of payments the Company makes under the Tax Receivable Agreement; and (iv) certain increases in tax basis resulting from payments the Company makes under the Tax Receivable Agreement. The Company will retain the benefit of the remaining 15% of these cash savings.

For the year ending December 31, 2020, other income (expense) includes a $(4.3) million non-cash charge related to a change in the measurement of our Tax Receivable Agreement liability as a result of changes in our blended state tax rate. Please see Note 18 "*Income Taxes.*"

The liability for the Tax Receivable Agreement was $92.4 million as of December 31, 2020, which is classified as other non-current liabilities on our consolidated balance sheet. The deferred tax assets for the Tax Receivable Agreement were $104.9 million, which were recognized due to the increase in tax basis and certain tax benefits attributable to imputed interest, and are reflected as part of the Investment in Lender's Protection, LLC deferred tax asset above. The Company expects to benefit from the remaining 15% of cash savings, if any, realized.

20. Quarterly Results of Operations (Unaudited)

Consolidated quarterly results of operations for fiscal year 2020 and 2019 were as follows:

	Quarter Ended			
	March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020
	(in thousands, except per share data)			
2020				
Total revenue	$ 17,430	$ 22,067	$ 29,762	$ 39,633
Gross profit	$ 14,935	$ 20,240	$ 27,266	$ 36,665
Operating income	$ 8,931	$ 3,946	$ 19,554	$ 24,286
Change in fair value of contingent consideration	$ —	$ (48,802)	$ (83,130)	$ —
Net income (loss) and comprehensive income (loss)	$ 8,172	$ (49,805)	$ (71,133)	$ 15,202
Basic net income (loss) per common share	$ 0.29	$ (1.01)	$ (0.62)	$ 0.12
Diluted net income (loss) per common share	$ 0.16	$ (1.01)	$ (0.62)	$ 0.12

	Quarter Ended			
	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019
	(in thousands, except per share data)			
2019				
Total revenue	$ 19,484	$ 25,183	$ 22,104	$ 26,076
Gross profit	$ 17,957	$ 23,116	$ 20,181	$ 23,787
Operating income	$ 12,863	$ 17,580	$ 14,817	$ 17,355
Net income (loss) and comprehensive income (loss)	$ 12,904	$ 17,484	$ 14,716	$ 17,440
Basic net income (loss) per common share	$ (0.34)	$ (0.19)	$ (1.25)	$ (1.19)
Diluted net income (loss) per common share	$ (0.34)	$ (0.19)	$ (1.25)	$ (1.19)

Item 9. *Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.*

None.

Item 9A. *Evaluation of Disclosure Controls and Procedures.*

(a) 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 of the end of the period covered by this report. The term "disclosure controls and procedures," as defined in Rules 13a15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the Securities and Exchange Commission, or SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

(b) Internal control over financial reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, our principal executive and principal financial and accounting officers and effected by our board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Our management, with the participation of our principal executive and principal financial and accounting officers, assessed the effectiveness of our internal control over financial reporting as of December 31, 2020. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in its 2013 Internal Control — Integrated Framework. Based on this assessment, our management has concluded that, as of December 31, 2020, our internal control over financial reporting is effective based on those criteria.

This Annual Report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm as we are regarded an emerging growth company pursuant to Section 2(a)(19) of the Securities Act, as modified by JOBS Act.

(c) Changes in internal control over financial reporting

There have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting despite the fact that most of our employees are working remotely due to the

COVID-19 pandemic. We are continually monitoring and assessing the COVID-19 situation and our internal controls to minimize any impact on their design and operating effectiveness.

Item 9B. ***Other Information.***

None.

Item 10. ***Directors, Executive Officers and Corporate Governance.***

The information required by this item is set forth under the captions "Election of Directors," "Delinquent Section 16(a) Reports" and "Board Matters" in the 2021 Proxy Statement.

Item 11. ***Executive Compensation.***

The information required by this item is set forth under the captions "Election of Directors," "Delinquent Section 16(a) Reports" and "Board Matters" in the 2021 Proxy Statement.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.***

The information required by this item is set forth under the captions "Securities Authorized for Issuance under Equity Compensation Plans" and "Voting Securities and Principal Stockholders" in the 2021 Proxy Statement.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence.***

The information required by this item is set forth under the captions "Certain Relationships and Related Party Transactions" and "Board Matters" in the 2021 Proxy Statement.

Item 14. ***Principal Accountant Fees and Services.***

The information required by this item is set forth under the caption "Proposal to Ratify the Selection of Ernst & Young as our Independent Registered Public Accounting Firm" in the 2021 Proxy Statement.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules.***

(a) The following documents are filed as part of this report.

(1) *Financial Statements*

Our consolidated financial statements are included in Part II, Item 8 of this Annual Report on Form 10-K.

(2) *Financial Statement Schedules*

All financial statement schedules are omitted because they are not applicable or the required information is included in the consolidated financial statements or notes thereto.

(3) *Exhibits*

The exhibits listed in (b) are filed or incorporated by reference as part of this Annual Report on Form 10-K.

(b) Exhibits

Number	Description
2.1	Business Combination Agreement, dated as of January 5, 2020, by and among Nebula, Blocker, Blocker Holder, ParentCo, Merger Sub LLC, Merger Sub Corp, Open Lending, and Shareholder Representative Services LLC, as the Securityholder Representative (incorporated by reference to Annex A of ParentCo's Registration Statement on Form S-4 (Reg. No. 333-237264), filed with the SEC on May 20, 2020).
2.2	Amendment No. 1 and Waiver, dated as of March 18, 2020, to the Business Combination Agreement, by and among Nebula, Blocker, Blocker Holder, ParentCo, Merger Sub LLC, Merger Sub Corp, Open Lending, and Shareholder Representative Services LLC, as the Securityholder Representative (incorporated by reference to Exhibit 2.2 to ParentCo's Registration Statement on Form S-4 (Reg. No. 333-237264), filed with the SEC on March 18, 2020).
2.3	Amendment No. 2 and Consent, dated as of March 26, 2020, to the Business Combination Agreement by and among Nebula, Blocker, Blocker Holder, ParentCo, Merger Sub LLC, Merger Sub Corp, Open Lending, and Shareholder Representative Services LLC, as the Securityholder Representative (incorporated by reference to Exhibit 2.3 to Nebula's Current Report on Form 8-K filed March 27, 2020).
2.4	Amendment No. 3 and Consent, dated as of May 13, 2020, to the Business Combination Agreement by and among Nebula, Blocker, Blocker Holder, ParentCo, Merger Sub LLC, Merger Sub Corp, Open Lending, and Shareholder Representative Services LLC, as the Securityholder Representative (incorporated by reference to Exhibit 2.4 to ParentCo's Registration Statement on Form S-4 (Reg. No. 333-237264), filed with the SEC on May 13, 2020).
3.1	Amended and Restated Certificate of Incorporation of Open Lending Corporation (incorporated by reference to Exhibit 3.1 to Open Lending Corporation's Current Report on Form 8-K filed June 15, 2020).
3.2	Amended and Restated Bylaws of Open Lending Corporation (incorporated by reference to Exhibit 3.2 to Open Lending Corporation's Current Report on Form 8-K filed June 15, 2020).
4.1	Form of Warrant Certificate (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-1 filed July 1, 2020).
4.2	Form of Warrant Agreement between American Stock Transfer & Trust Company and the Registrant (incorporated by reference to Exhibit 4.2 to the Registrant's Registration Statement on Form S-1 filed July 1, 2020).
4.3	Assignment, Assumption and Amendment of Warrant Agreement dated June 10, 2020, by and among Nebula Acquisition Corporation, a Delaware corporation, Nebula Parent Corp., a Delaware Corporation, and American Stock Transfer & Trust Company, LLC, a New York limited liability trust company, as warrant agent (incorporated by reference to Exhibit 4.3 to the Registrant's Registration Statement on Form S-1 filed July 1, 2020).
4.4	Description of Registrant's Securities

10.1	Founder Support Agreement, dated as of January 5, 2020, by and among Nebula, ParentCo, Open Lending, the Sponsor, Adam H. Clammer, James H. Greene, Jr., Rufina Adams, David Kerko, Frank Kern, James C. Hale and Ronald Lamb (incorporated by reference to Exhibit 10.1 to Nebula's Current Report on Form 8-K filed January 6, 2020).
10.2	Amendment No. 1, dated as of March 18, 2020, to the Founder Support Agreement, by and among Nebula, ParentCo, Open Lending, the Sponsor, Adam H. Clammer, James H. Greene, Jr., Rufina Adams, David Kerko, James C. Hale and Ronald Lamb (incorporated by reference to Exhibit 10.2 to Nebula's Current Report on Form 8-K filed March 18, 2020).
10.3	Amendment No. 2, dated May 13, 2020, to the Founder Support Agreement, by and among Nebula, ParentCo, Open Lending, the Sponsor, Adam H. Clammer, James H. Greene, Jr., Rufina Adams, David Kerko, James C. Hale and Ronald Lamb (incorporated by reference to Exhibit 10.3 to Nebula's Current Report on Form 8-K filed May 13, 2020).
10.4	Form of Investor Support Agreement (incorporated by reference to Exhibit 10.2 to Nebula's Current Report on Form 8-K filed January 6, 2020).
10.5	Company Support Agreement, dated as of January 5, 2020, by and among Nebula, Bregal Investments, Inc., BRP Hold 11, Inc., Bee Cave Capital, LLC, Richard Watkins, Open Lending Opportunity Partners, Ryan Collins, Kurt Wilkin, Scott Gordon, Keith Jezek and Steve Letbetter (incorporated by reference to Exhibit 10.3 to Nebula's Current Report on Form 8-K filed January 6, 2020).
10.6	Form of Subscription Agreement (incorporated by reference to Exhibit 10.4 to Nebula's Current Report on Form 8-K filed January 6, 2020).
10.7	Tax Receivable Agreement, dated June 10, 2020, by and among Nebula Acquisition Corp., BRP Hold 11, Inc. the Blocker named herein, Nebula Parent Corp., Open Lending, LLC and the undersigned beneficiaries (incorporated by reference to Exhibit 10.7 to Open Lending Corporation's Current Report on Form 8-K filed June 15, 2020).
10.8	Investor Rights Agreement, dated June 10, 2020, by and among Nebula Parent Corp., the parties listed as Investors herein, Bregal Sagemount I, L.P., solely for the purposes of Section 8.1, and Open Lending, LLC (incorporated by reference to Exhibit 10.8 to Open Lending Corporation's Current Report on Form 8-K filed June 15, 2020).
10.9	Credit Agreement, dated as of March 11, 2020, among Open Lending, LLC, the guarantors party thereto, UBS AG Stamford Branch, and the lenders party thereto (incorporated by reference to Exhibit 10.9 of Nebula Acquisition Corp.'s Registration Statement on Form S-4 (Reg. No. 333-237264), filed with the SEC on May 13, 2020).
10.10	2020 Stock Option and Incentive Plan. (Incorporated by reference to Annex E of Nebula Acquisition Corp.'s Registration Statement on Form S-4 (Reg. No. 333-237264), filed with the SEC on May 20, 2020)
10.11	Form of Director Indemnification Agreement (incorporated by reference to Exhibit 10.12 to Open Lending Corporation's Current Report on Form 8-K filed June 15, 2020).
10.12	Form of Officer Indemnification Agreement (incorporated by reference to Exhibit 10.11 to Open Lending Corporation's Current Report on Form 8-K filed June 15, 2020).
10.13	Employment Agreement by and between the Company and Ross M. Jessup, dated August 28, 2020 (incorporated by reference to the Open Lending Corporation's Current Report on Form 8-K filed August 31, 2020)
10.14	Employment Agreement by and between the Company and John J. Flynn, dated August 28, 2020 (incorporated by reference to the Open Lending Corporation's Current Report on Form 8-K filed August 31, 2020)
10.15	Employment Agreement by and between the Company and Charles D. Jehl, dated August 28, 2020 (incorporated by reference to the Open Lending Corporation's Current Report on Form 8-K filed August 31, 2020)
10.16	First Amendment to Employment Agreement by and between the Company and John J. Flynn, dated November 5, 2020 (incorporated by reference to the Open Lending Corporation's Current Report on Form 8-K filed November 12, 2020)
10.17	First Amendment to Employment Agreement by and between the Company and Ross Jessup, dated November 5, 2020 (incorporated by reference to the Open Lending Corporation's Current Report on Form 8-K filed November 12, 2020)

10.18	First Amendment to Employment Agreement by and between the Company and Charles D. Jehl, dated November 5, 2020 (incorporated by reference to the Open Lending Corporation's Current Report on Form 8-K filed November 12, 2020)
10.19	Senior Executive Cash Incentive Bonus Plan (incorporated by reference to the Open Lending Corporation's Current Report on Form 8-K filed November 12, 2020)
10.20	Non-Employee Director Compensation Policy (incorporated by reference to the Open Lending Corporation's Current Report on Form 8-K filed November 12, 2020)
10.21	Second Amendment to Credit Agreement, dated as of December 7, 2020, by and among Open Lending, LLC and the financial institutions party thereto as lender (incorporated by reference to the Open Lending Corporation's Current Report on Form 8-K filed December 10, 2020).
10.22	Stock Repurchase Agreement, dated as of December 7, 2020, by and between Open Lending Corporation and the stockholders listed therein (incorporated by reference to the Open Lending Corporation's Registration Statement on Form S-1 filed on December 7, 2020).
21.1	List of Significant Subsidiaries.
23.1	Consent of Ernst & Young, LLP
31.1	Certification of the Chief Executive Officer
31.2	Certification of the Chief Financial Officer
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350)
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350)
101.1NS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Item 16. ***Form 10-K Summary.***

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	OPEN LENDING CORPORATION
	/s/ Charles Jehl
	Charles D. Jehl
March 16, 2021	Chief Financial Officer (Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ John Flynn John J. Flynn	Chairman & Chief Executive Officer and Director (Principal Executive Officer)	March 16, 2021
/s/ Charles Jehl Charles D. Jehl	Chief Financial Officer (Principal Financial and Accounting Officer)	March 16, 2021
/s/ Ross Jessup Ross M. Jessup	President, Chief Operating Officer and Director	March 16, 2021
/s/ Adam Clammer Adam H. Clammer	Director	March 16, 2021
/s/ Eric Feldstein Eric A. Feldstein	Director	March 16, 2021
/s/ Blair Greenberg Blair J. Greenberg	Director	March 16, 2021
/s/ Shubhi Rao Shubhi S. Rao	Director	March 16, 2021
/s/ Jessica Snyder Jessica Snyder	Director	March 16, 2021
/s/ Brandon Van Buren Brandon Van Buren	Director	March 16, 2021
/s/ Gene Yoon Gene Yoon	Director	March 16, 2021