

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

FORM 10-Q

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

For the quarterly period ended June 30, 2016

Commission File Number	Exact Name of Registrant as Specified in its Charter	I.R.S. Employer Identification Number
333-147019 333-179941-01 333-204880	PROSPER MARKETPLACE, INC. a Delaware corporation 221 Main Street, 3 rd Floor San Francisco, CA 94105 Telephone: (415)593-5400	73-1733867
333-179941 333-204880-01	PROSPER FUNDING LLC a Delaware limited liability company 221 Main Street, 3 rd Floor San Francisco, CA 94105 Telephone: (415)593-5479	45-4526070

Indicate by check mark whether each 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 and (2) has been subject to such filing requirements for the past 90 days.

Prosper Marketplace, Inc. Yes No
Prosper Funding LLC 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Prosper Marketplace, Inc. Yes No
Prosper Funding LLC 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.

	Large Accelerated Filer	Accelerated Filer	Non- Accelerated Filer	Smaller Reporting Company
Prosper Marketplace, Inc.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Prosper Funding LLC	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Prosper Marketplace, Inc. Yes No
Prosper Funding LLC Yes No

Prosper Funding LLC meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this Form 10-Q with the reduced disclosure format specified in General Instruction H(2) of Form 10-Q.

As of August 4, 2016, there were 69,744,201 shares of Prosper Marketplace, Inc. common stock outstanding. Prosper Funding LLC does not have any common stock outstanding.

THIS COMBINED FORM 10-Q IS SEPARATELY FILED BY PROSPER MARKETPLACE, INC. AND PROSPER FUNDING LLC. INFORMATION CONTAINED HEREIN RELATING TO ANY INDIVIDUAL REGISTRANT IS FILED BY SUCH REGISTRANT ON ITS OWN BEHALF. EACH REGISTRANT MAKES NO REPRESENTATION AS TO INFORMATION RELATING TO THE OTHER REGISTRANT.

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Except as the context requires otherwise, as used herein, “Registrants” refers to Prosper Marketplace, Inc. (“PMI”), a Delaware corporation, and its wholly owned subsidiary, Prosper Funding LLC (“PFL”), a Delaware limited liability company; “we,” “us,” “our,” “Prosper,” and the “Company” refer to PMI and its wholly owned subsidiaries, PFL, BillGuard, Inc. (“BillGuard”), a Delaware corporation, Prosper Healthcare Lending LLC (“PHL”), a Delaware limited liability company, and Prosper Capital Management LLC, a Delaware limited liability company, on a consolidated basis; and “Prosper Funding” refers to PFL and its wholly owned subsidiary, Prosper Asset Holdings LLC (“PAH”), a Delaware limited liability company, on a consolidated basis. In addition, the unsecured, consumer loans originated through our marketplace are referred to as “Borrower Loans,” and the borrower payment dependent notes issued through our marketplace, whether issued by PMI or PFL, are referred to as “Notes.” Further, investors currently invest in Borrower Loans through two channels: (i) the “Note Channel”, which allows investors to purchase Notes from PFL, the payments of which are dependent on the payments made on the corresponding Borrower Loan; and (ii) the “Whole Loan Channel”, which allows accredited and institutional investors to purchase Borrower Loans in their entirety directly from PFL. Finally, although historically we have referred to investors as “lender members,” we call them “investors” herein to avoid confusion since WebBank is the lender for Borrower Loans originated through our marketplace. All share and per share numbers presented in this Form 10-Q have been adjusted to reflect a 5-for-1 forward stock split effected by PMI on February 16, 2016.

Forward-Looking Statements

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”). Forward-looking statements include all statements that do not relate solely to historical or current facts, and can generally be identified by the use of words such as “may,” “believe,” “expect,” “project,” “estimate,” “intend,” “anticipate,” “plan,” “continue” or similar expressions. In particular, information appearing under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” includes forward-looking statements. Forward-looking statements inherently involve many risks and uncertainties that could cause actual results to differ materially from those projected in these statements. Where, in any forward-looking statement, PFL or PMI expresses an expectation or belief as to future results or events, such expectation or belief is based on the current plans and

expectations of their respective managements, expressed in good faith and is believed to have a reasonable basis. Nevertheless, there can be no assurance that the expectation or belief will result or be achieved or accomplished.

The following include some but not all of the factors that could cause actual results or events to differ materially from those anticipated:

- the performance of the Notes, which, in addition to being speculative investments, are special, limited obligations that are not guaranteed or insured;
- PFL's ability to make payments on the Notes, including in the event that borrowers fail to make payments on the corresponding Borrower Loans;
- our ability to attract potential borrowers and investors to our marketplace;
- the reliability of the information about borrowers that is supplied by borrowers including actions by some borrowers to defraud investors;
- our ability to service the Borrower Loans, and our ability or the ability of a third party debt collector to pursue collection against any borrower, including in the event of fraud or identity theft;
- credit risks posed by the credit worthiness of borrowers and the effectiveness of our credit rating systems;
- our limited operational history and lack of significant historical performance data about borrower performance;
- potential efforts by state regulators or litigants to impose liability that could affect PFL's (or any subsequent assignee's) ability to continue to charge to borrowers the interest rates that they agreed to pay at origination of their loans;
- our compliance with applicable local, state and federal law, including the Securities Act, Investment Advisers Act of 1940, the Investment Company Act of 1940 and other laws;
- potential efforts by state regulators or litigants to characterize PFL or PMI, rather than WebBank, as the lender of the Borrower Loans originated through our marketplace;
- the application of federal and state bankruptcy and insolvency laws to borrowers and to PFL and PMI;
- the impact of borrower delinquencies, defaults and prepayments on the returns on the Notes;
- the lack of a public trading market for the Notes and any inability to resell the Notes on the Note Trader platform;
- the federal income tax treatment of an investment in the Notes and the PMI Management Rights; and
- our ability to prevent security breaches, disruptions in service, and comparable events that could compromise the personal and confidential information held on our data systems, reduce the attractiveness of our marketplace or adversely impact our ability to service Borrower Loans.

There may be other factors that may cause actual results to differ materially from the forward-looking statements in this Quarterly Report on Form 10-Q. We can give no assurances that any of the events anticipated by the forward-looking statements will occur or, if any of them does, what impact they will have on our results of operations and financial condition. You should carefully read the factors described in the "Risk Factors" section of our Annual Report on Form 10-K for a description of certain risks that could, among other things, cause our actual results to differ from these forward-looking statements.

All forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q and are expressly qualified in their entirety by the cautionary statements included in this Quarterly Report on Form 10-Q. We undertake no obligation to update or revise forward-looking statements that may be made to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events, other than as required by law.

WHERE YOU CAN FIND MORE INFORMATION

The following filings are available for download free of charge at www.prosper.com as soon as reasonably practicable after such filings are electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC"): Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports. Further, a copy of this Quarterly Report on Form 10-Q is located at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. Our SEC filings are also available to the public at the SEC's Internet site at <http://www.sec.gov>.

Item 1. Condensed Consolidated Financial Statements

Prosper Marketplace, Inc.
Condensed Consolidated Balance Sheets (Unaudited)
(in thousands, except for share and per share amounts)

	June 30, 2016	December 31, 2015
Assets		
Cash and Cash Equivalents	\$ 28,824	\$ 66,295
Restricted Cash	133,216	151,223
Available for Sale Investments, at Fair Value	55,713	73,187
Accounts Receivable	870	2,434
Loans Held for Sale, at Fair Value	4,705	32
Borrower Loans, at Fair Value	310,034	297,273
Property and Equipment, Net	28,178	24,965
Prepaid and Other Assets	6,747	6,433
Servicing Assets	14,297	14,363
Goodwill	36,368	36,368
Intangibles Assets, Net	11,076	13,051
Total Assets	<u>\$ 630,028</u>	<u>\$ 685,624</u>
Liabilities, Convertible Preferred Stock and Stockholders' Deficit		
Accounts Payable and Accrued Liabilities	\$ 13,104	\$ 22,409
Payable to Investors	114,876	136,507
Notes at Fair Value	309,530	297,405
Other Liabilities	24,416	20,735
Total Liabilities	<u>461,926</u>	<u>477,056</u>
Commitments and Contingencies (see Note 16)		
Convertible Preferred Stock – \$0.01 par value; 177,388,425 shares authorized, issued and outstanding as of June 30, 2016 and December 31, 2015. Aggregate liquidation preference of \$325,952 as of June 30, 2016 and December 31, 2015.	275,938	275,938
Stockholders' Deficit		
Common Stock (\$0.01 par value; 298,222,103 shares authorized, 70,893,225 issued and 69,957,290 outstanding as of June 30, 2016; and 270,326,075 shares authorized, 70,367,425 shares issued and 69,431,490 outstanding as of December 31, 2015)	174	127
Additional Paid-In Capital	115,325	102,971
Less: Treasury Stock (5,177,235 common shares at cost, June 30, 2016 and December 31, 2015)	(23,417)	(23,417)
Accumulated Deficit	(199,996)	(146,907)
Accumulated Other Comprehensive Income/(Loss)	78	(144)
Total Stockholders' Deficit	<u>(107,836)</u>	<u>(67,370)</u>
Total Liabilities, Convertible Preferred Stock and Stockholders' Deficit	<u>\$ 630,028</u>	<u>\$ 685,624</u>

All share numbers reflect a 5-for-1 forward stock split effected by PMI on February 16, 2016.

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

Prosper Marketplace, Inc.
Condensed Consolidated Statements of Operations (Unaudited)
(in thousands, except for share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues				
Operating Revenues				
Transaction Fees, Net	\$ 19,276	\$ 39,800	\$ 61,100	\$ 65,142
Servicing Fees, Net	7,676	3,575	14,819	6,144
Gain (Loss) on Sale of Borrower Loans	(687)	3,696	3,104	5,618
Other Revenue	816	1,630	3,589	2,685
Total Operating Revenues	<u>27,081</u>	<u>48,701</u>	<u>82,612</u>	<u>79,589</u>
Interest Income				
Interest Income on Borrower Loans	11,192	10,165	21,975	20,634
Interest Expense on Notes	(10,098)	(9,448)	(19,819)	(19,011)
Net Interest Income	1,094	717	2,156	1,623
Change in Fair Value of Borrower Loans, Loans Held for Sale and Notes, Net	(2)	95	(79)	21
Total Net Revenue	<u>28,173</u>	<u>49,513</u>	<u>84,689</u>	<u>81,233</u>
Expenses				
Origination and Servicing	8,833	7,126	19,282	13,982
Sales and Marketing	12,303	26,580	45,023	45,150
General and Administrative	28,499	21,832	59,145	35,329
Restructuring Charges	14,061	-	14,061	-
Total Expenses	<u>63,696</u>	<u>55,538</u>	<u>137,511</u>	<u>94,461</u>
Net Loss Before Taxes	(35,523)	(6,025)	(52,822)	(13,228)
Income Tax Expense	105	176	270	249
Net Loss Applicable to Common Stockholders	<u>\$ (35,628)</u>	<u>\$ (6,201)</u>	<u>\$ (53,092)</u>	<u>\$ (13,477)</u>
Net Loss Per Share – Basic and Diluted	\$ (0.56)	\$ (0.11)	\$ (0.86)	\$ (0.25)
Weighted-Average Shares - Basic and Diluted	<u>63,270,058</u>	<u>55,612,485</u>	<u>61,813,773</u>	<u>54,168,175</u>

All share numbers reflect a 5-for-1 forward stock split effected by PMI on February 16, 2016.

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

Prosper Marketplace, Inc.
Condensed Consolidated Statements of Other Comprehensive Income (Loss) (Unaudited)
(in thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net Loss	\$ (35,628)	\$ (6,201)	\$ (53,092)	\$ (13,477)
Other Comprehensive Income (Loss), Before Tax				
Change in Net Unrealized Gain (Loss) on Available for Sale Investments, at Fair Value	25	-	215	-
Realized Gain (Loss) on Sale of Available for Sale Investments, at Fair Value	6	-	6	-
Other Comprehensive Income (Loss), Before Tax	31	-	221	-
Income tax effect	-	-	-	-
Other Comprehensive Income (Loss), Net of Tax	31	-	221	-
Comprehensive Income (Loss)	<u>(35,597)</u>	<u>(6,201)</u>	<u>(52,871)</u>	<u>(13,477)</u>

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

Prosper Marketplace, Inc.
Condensed Consolidated Statements of Cash Flows (Unaudited)
(in thousands)

	Six Months Ended June 30,	
	2016	2015
Cash flows from Operating Activities:		
Net Loss	\$ (53,092)	\$ (13,477)
Adjustments to Reconcile Net Loss to Net Cash Provided by (Used in) Operating Activities:		
Change in Fair Value of Borrower Loans, Loans Held for Sale and Notes	79	(21)
Depreciation and Amortization	6,430	3,455
Gain on Sales of Borrower Loans	(5,690)	(5,857)
Change in Fair Value of Servicing Rights	5,647	1,895
Stock-Based Compensation Expense	11,510	4,192
Restructuring Liability	8,492	-
Other, Net	227	45
Changes in Operating Assets and Liabilities:		
Purchase of Loans Held for Sale at Fair Value	(1,358,011)	(1,402,499)
Proceeds from Sales and Principal Payments of Loans Held for Sale at Fair Value	1,353,338	1,409,426
Restricted Cash Except for those Related to Investing Activities	20,621	(63,254)
Accounts Receivable	1,564	1,956
Prepaid and Other Assets	(84)	(2,235)
Accounts Payable and Accrued Liabilities	(4,995)	2,754
Payable to Investors	(21,631)	70,551
Other Liabilities	(7,690)	(2,000)
Net cash (Used in) provided by Operating Activities	(43,285)	4,931
Cash Flows from Investing Activities:		
Purchase of Borrower Loans Held at Fair Value	(109,215)	(94,512)
Principal Payments of Borrower Loans Held at Fair Value	83,514	73,457
Purchases of Property and Equipment	(8,600)	(6,412)
Maturities of Short Term Investments	1,278	1,274
Purchases of Short Term Investments	(1,277)	(1,275)
Purchases of Available for Sale Investments, at Fair Value	(11,725)	-
Proceeds from Sale of Available for Sale Investments	9,193	-
Maturities of Available for Sale Investments	20,064	-
Acquisition of Businesses, Net of Cash Acquired	-	(19,000)
Changes in Restricted Cash Related to Investing Activities	(2,614)	(2,729)
Net Cash Used in Investing Activities	(19,382)	(49,197)
Cash Flows from Financing Activities:		
Proceeds from Issuance of Notes Held at Fair Value	109,147	94,575
Payments of Notes Held at Fair Value	(84,200)	(73,509)
Proceeds from Issuance of Convertible Preferred Stock, Net	-	164,793
Proceeds from Exercise of Warrants and Stock Options including Early Exercise, and Issuance of Restricted Stock	464	4,609
Repurchase of Common Stock and Restricted Stock	(46)	(21,250)
Taxes Paid for Awards Vested Under Equity Incentive Plans	(169)	(2,206)
Net Cash Provided by Financing Activities	25,196	167,012
Net (Decrease) Increase in Cash and Cash Equivalents	(37,471)	122,746
Cash and Cash Equivalents at Beginning of the Period	66,295	50,557
Cash and Cash Equivalents at End of the Period	\$ 28,824	\$ 173,303
Supplemental Disclosure of Cash Flow Information:		
Cash Paid for Interest	\$ 19,787	\$ 19,147
Non-Cash Investing Activity- Accrual for Property and Equipment, Net	\$ 346	\$ 26
Non-Cash Investing Activity- Amount Payable for the Acquisition of Business	\$ -	\$ 840

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

Prosper Marketplace, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

Prosper Marketplace, Inc. (“PMI”) was incorporated in the state of Delaware on March 22, 2005. Except as the context requires otherwise, as used in these notes to the condensed consolidated financial statements of Prosper Marketplace, Inc., “Prosper,” “we,” “us,” and “our” refer to PMI and its wholly-owned subsidiaries, on a consolidated basis.

The unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”) and disclosure requirements for interim financial information and the requirements of Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by US GAAP for complete financial statements. The unaudited interim condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2015. The balance sheet at December 31, 2015 has been derived from the audited financial statements at that date. Management believes these unaudited interim condensed consolidated financial statements reflect all adjustments, consisting of a normal recurring nature, which are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period.

The preparation of Prosper’s condensed consolidated financial statements and related disclosures in conformity with GAAP requires management to make judgments, assumptions and estimates that affect the amounts reported in Prosper’s financial statements and accompanying notes. Management bases its estimates on historical experience and on various other factors it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of certain assets and liabilities. These judgments, estimates and assumptions are inherently subjective in nature and actual results may differ from these estimates and assumptions, and the differences could be material.

The accompanying interim condensed consolidated financial statements include the accounts of PMI and its wholly-owned subsidiaries. All intercompany balances have been eliminated in consolidation.

On January 23, 2015, PMI acquired all of the outstanding limited liability company units of American HealthCare Lending, LLC (“American HealthCare Lending”), a company that operated a patient financing platform, and merged American HealthCare Lending with and into Prosper Healthcare Lending LLC (“PHL”), a newly established entity surviving the merger. Prosper’s condensed consolidated financial statements include PHL’s results of operations and financial position from the date of acquisition forward.

On October 9, 2015, PMI acquired all of the outstanding stock of BillGuard, Inc. (“BillGuard”), a company incorporated in Delaware in 2010 that developed applications that help consumers manage their identity, finances and credit. PMI merged BillGuard with and into Beach Merger Sub, Inc., a newly established entity wholly owned by PMI, with BillGuard surviving the merger. Prosper’s condensed consolidated financial statements include BillGuard’s results of operations and financial position from the date of acquisition forward.

Reclassifications

During the period ended June 30, 2016, Prosper changed the presentation of its revenue in the condensed consolidated statements of operations. A new line called “Gain on Sales of Borrower Loans” was created with the amounts included in this line previously classified as “Other Revenue”. Prior period amounts have been reclassified to conform to the current presentation.

Additionally, due to the early adoption of ASU 2016-09 on January 1, 2016, reclassifications were made to the financing section of the condensed consolidated statements of cash flows to reflect taxes paid for awards vested under equity incentive plans. Prior period amounts have been reclassified to conform to the current presentation.

2. Summary of Significant Accounting Policies

Prosper's significant accounting policies are included in *Note 2 – Summary of Significant Accounting Policies* in Prosper's Annual Report on Form 10-K for the year ended December 31, 2015. There have been no changes to these accounting policies during the first six months of 2016.

Fair Value Measurements

Financial instruments consist principally of Cash and Cash Equivalents, Restricted Cash, Available for Sale Investments at Fair Value, Borrower Loans, Loans Held for Sale, Accounts Receivable, Accounts Payable and Accrued Liabilities, Payable to Investors and Notes. The estimated fair values of Cash and Cash Equivalents, Restricted Cash, Accounts Receivable, Accounts Payable and Accrued Liabilities, and Payable to Investors approximate their carrying values because of their short term nature.

Restructuring Charges

Restructuring charges consist of severance and contract termination related costs. A liability for severance costs is typically recognized when the plan of termination has been communicated to the affected employees and is measured at its fair value at the communication date. Contract termination costs consist primarily of costs that will continue to be incurred under operating leases for their remaining terms without economic benefit to the Company. A liability for contract termination costs is recognized at the date the Company ceases using the rights conveyed by the lease contract and is measured at its fair value, which is determined based on the remaining contractual lease rentals reduced by estimated sublease rentals.

Borrower Loans, Loans Held for Sale and Notes

Through the Note Channel, Prosper purchases Borrower Loans from WebBank then issues Notes, and holds the Borrower Loans until maturity. The obligation to repay a series of Notes issued through the Note Channel is dependent upon the repayment of the associated Borrower Loan. Borrower Loans funded and Notes issued through the Note Channel are carried on Prosper's condensed consolidated balance sheets as assets and liabilities, respectively. We choose to measure certain financial instruments and certain other items at fair value on an instrument-by-instrument basis with unrealized gains and losses on items for which the fair value option has been elected reported in earnings. Management believes that the fair value option is more meaningful for the readers of the financial statements and it allows both the Borrower Loans and Notes to be valued using the same methodology. The fair value election, with respect to an item, may not be revoked once an election is made. Prosper estimates the fair value of such Borrower Loans and Notes using discounted cash flow methodologies that take into account expected prepayments, losses, recoveries and default rates. The Borrower Loans are not derecognized when a corresponding Note is issued as Prosper maintains the ability to sell the Borrower Loans without the approval of the holders of the corresponding Notes.

Recent Accounting Pronouncements

In May 2014, as part of its ongoing efforts to assist in the convergence of US GAAP and International Financial Reporting Standards ("IFRS"), the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "*Revenue from Contracts with Customers*." The new guidance sets forth a new five-step revenue recognition model which replaces the prior revenue recognition guidance in its entirety and is intended to eliminate numerous industry-specific pieces of revenue recognition guidance that have historically existed in U.S. GAAP. The underlying principle of the new standard is that a business or other organization will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. The standard also requires more detailed disclosures and provides additional guidance for transactions that were not addressed completely in the prior accounting guidance. The standard will be effective for Prosper in the first quarter of fiscal 2018. In August 2015, the FASB issued ASU No. 2015-14, which amended the standard to provide a one-year deferral of the effective date, as well as providing the option to early adopt the standard on the original effective date. Accordingly, Prosper may adopt the standard in either Prosper's fiscal year ending December 31, 2017 or 2018. The guidance can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. In March 2016, April 2016 and May 2016, the FASB further amended the guidance to clarify the implementation on principal versus agent considerations, the identification of performance obligation and the licensing implementation guidance, and to provide narrow-scope improvements and practical expedients. Prosper has not yet selected a transition method and is evaluating the impact of adopting this new accounting standard update on the consolidated financial statements and related disclosures.

In November 2014, the FASB issued ASU 2014-16, *Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity* to eliminate the use of different methods in practice and thereby reduce existing diversity in the accounting for hybrid financial instruments issued in the form of a share. For hybrid financial instruments issued in the form of a share, an entity should determine the nature of the contract by considering the economic characteristics and risks of the entire hybrid financial instrument. The existence or omission of any single

term or feature does not necessarily determine the economic characteristics and risks of the host contract. This standard will be effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2015. Prosper adopted this guidance on January 1, 2016, and the adoption of this standard did not have a material impact on Prosper's condensed consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05 "*Customers' Accounting for Fees Paid in Cloud Computing Arrangement*", which became effective for the annual reporting period beginning after December 15, 2015. The guidance changes what a customer must consider in determining whether a cloud computing arrangement contains a software license. If the arrangement contains a software license, the customer would account for the fees related to the software license element in accordance with guidance related to internal use software; if the arrangement does not contain a software license, the customer would account for the arrangement as a service contract. Prosper adopted this guidance on January 1, 2016, and the adoption of this standard did not have a material impact on Prosper's condensed consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments*. The new guidance simplifies the accounting for measurement period adjustments in connection with business combinations by requiring that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. This guidance is effective for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Prosper adopted this guidance on January 1, 2016, and the adoption of this standard did not have a material impact on Prosper's condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires an entity to recognize assets and liabilities arising from a lease for both financing and operating leases, along with additional qualitative and quantitative disclosures. This guidance will be effective for us in the first quarter of our fiscal year 2019, and early adoption is permitted. Prosper will be required to recognize and measure leases at the beginning off the earliest period presented using a modified retrospective approach. Prosper anticipates that this standard will have a material impact on our consolidated financial statements. While Prosper is continuing to assess all potential impacts of the standard, Prosper currently believes the most significant impact relates to our accounting for office operating leases.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting (Topic 718)*. This guidance makes several modifications to Topic 718 related to the accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. ASU 2016-09 also clarifies the statement of cash flows presentation for certain components of share-based awards. This guidance will be effective for us in the first quarter of our fiscal year 2017, and early adoption is permitted. Prosper has decided to early adopt this guidance effective January 1, 2016, the adoption of this standard did not have a material impact on Prosper's condensed consolidated financial statements.

3. Property and Equipment, Net

Property and equipment consist of the following (in thousands):

	June 30, 2016	December 31, 2015
Property and equipment:		
Computer equipment	\$ 14,153	\$ 10,522
Internal-use software and website development costs	14,289	10,990
Office equipment and furniture	3,087	2,442
Leasehold improvements	7,220	5,719
Assets not yet placed in service	1,994	3,242
Property and equipment	40,743	32,915
Less accumulated depreciation and amortization	(12,565)	(7,950)
Total property and equipment, net	<u>\$ 28,178</u>	<u>\$ 24,965</u>

Depreciation and amortization expense for property and equipment for the three months ended June 30, 2016 and 2015 was \$2.5 million and \$1.4 million, respectively. Depreciation and amortization expense for property and equipment for the six months ended June 30, 2016 and 2015 was \$4.5 million and \$3.1 million, respectively. Prosper capitalized internal-use software and website development costs in the amount of \$1.8 million and \$2.1 million for the three months ended June 30, 2016 and 2015, respectively. Prosper capitalized internal-use software and website development costs in the amount of \$3.6 million and \$3.9 million for the six months ended June 30, 2016 and 2015, respectively. Prosper recorded internal-use software and website development impairment charges of \$240 thousand and \$0 for the six months ended June 30, 2016 and 2015, respectively, as a result of its decision to

discontinue several software and website development projects. These charges are included in general and administration expenses on the condensed consolidated statement of operations.

4. Borrower Loans, Loans Held for Sale, and Notes Held at Fair Value

The aggregate principal balances outstanding and fair values of Borrower Loans, Loans Held for Sale and Notes as of June 30, 2016 and December 31, 2015, are presented in the following table (in thousands):

	Borrower Loans		Notes		Loans Held for Sale	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Aggregate principal balance outstanding	\$ 312,725	\$ 296,945	\$ (315,671)	\$ (294,331)	\$ 4,715	\$ 42
Fair value adjustments	(2,691)	328	6,141	(3,074)	(10)	(10)
Fair value	<u>\$ 310,034</u>	<u>\$ 297,273</u>	<u>\$ (309,530)</u>	<u>\$ (297,405)</u>	<u>\$ 4,705</u>	<u>\$ 32</u>

At June 30, 2016, outstanding Borrower Loans had original terms to maturity of either 36 or 60 months; had monthly payments with fixed interest rates ranging from 5.32% to 33.04% and had various maturity dates through June 2021. At December 31, 2015, outstanding Borrower Loans had original maturities of either 36 or 60 months; had monthly payments with fixed interest rates ranging from 5.32% to 33.04% and had various maturity dates through December 2020.

Approximately \$0.3 million and \$2.0 million represents the gain and loss, respectively, that is attributable to changes in the instrument specific credit risks related to Borrower Loans that were recorded in the change in fair value during the three and six months ending June 30, 2016.

As of June 30, 2016, Borrower Loans that were 90 days or more delinquent had an aggregate principal amount of \$2.0 million and a fair value of \$0.7 million. As of December 31, 2015, Borrower Loans that were 90 days or more delinquent had an aggregate principal amount of \$2.3 million and a fair value of \$0.9 million. Prosper places loans on non-accrual status when they are over 120 days past due. As of June 30, 2016 and December 31, 2015, Borrower Loans in non-accrual status had a fair value of \$0.2 million and \$0.1 million, respectively.

5. Loan Servicing Assets and Liabilities

Prosper accounts for servicing assets and liabilities at their estimated fair values with changes in fair values recorded in servicing fees. The initial asset or liability is recognized when Prosper sells Borrower Loans to unrelated third-party buyers through the Whole Loan Channel and the servicing rights are retained. The servicing assets and liabilities are measured at fair value throughout the servicing period. The total gains and losses recognized on the sale of such Borrower Loans was \$0.7 million of losses and \$3.7 million of gains for the three months ended June 30, 2016 and 2015, respectively. The total gain recognized on the sale of such Borrower Loans was \$3.1 million and \$5.6 million for the six months ended June 30, 2016 and 2015, respectively.

As of June 30, 2016, Borrower Loans that were sold but for which Prosper retained servicing rights had a total outstanding principal balance of \$4.1 billion, original terms of either 36 or 60 months and had monthly payments with fixed interest rates ranging from 5.32% to 35.52% and various maturity dates through June 2021. At December 31, 2015, Borrower Loans that were sold but for which Prosper retained servicing rights had a total outstanding principal balance of \$3.8 billion, original terms of either 36 or 60 months and had monthly payments with fixed interest rates ranging from 5.32% to 31.90% and various maturity dates through December 2020.

\$10.4 million and \$4.6 million of contractually specified servicing fees and ancillary fees are included on our condensed consolidated statement of operations in Servicing Fees, Net for the three months ended June 30, 2016 and 2015 respectively. \$20.0 million and \$7.8 million of contractually specified servicing fees and ancillary fees are included on our condensed statement of operations in Servicing Fees, Net for the six months ended June 30, 2016 and 2015 respectively.

Fair value

Valuation method – Prosper uses a discounted cash flow valuation methodology generally consisting of developing an estimate of future cash flows that are expected to occur over the life of a financial instrument and then discounting those cash flows at a rate of return that results in the fair value amount.

Significant unobservable inputs presented in the table within Note 7 below are those that Prosper considers significant to the estimated fair values of the Level 3 servicing assets and liabilities. The following is a description of the significant unobservable inputs provided in the table.

Market servicing rate – Prosper estimates adequate market servicing rates that would fairly compensate a substitute servicer should one be required, which includes the profit that would be demanded in the marketplace. This rate is stated as a fixed percentage of outstanding principal balance on a per annum basis. Prosper estimated these market servicing rates based on observable market rates for other loan types in the industry and bids from subservicing providers, adjusted for the unique loan attributes that are present in the specific loans that Prosper sells and services and information from a backup service provider.

Discount rate – The discount rate is a rate of return used to discount future expected cash flows to arrive at a present value, which represents the fair value of the loan servicing rights. We used a range of discount rates for the servicing assets and liabilities based on comparable observed valuations of similar assets and publicly available disclosures related to servicing valuations, with comparability adjustments made to account for differences with Prosper’s servicing assets.

Default Rate – The default rate presented in Note 7 is an annualized, average estimate considering all Borrower Loan categories (i.e. risk ratings and duration), and represents an aggregate of conditional default rate curves for each credit grade or Borrower Loan category. Each point on a particular Borrower Loan category’s curve represents the percentage of principal expected to default per period based on the term and age of the underlying Borrower Loans. The assumption regarding defaults directly reduces servicing revenues because the amount of servicing revenues received is based on the amount collected each period.

Prepayment Rate – The prepayment rate presented in Note 7 is an annualized, average estimate considering all Borrower Loan categories (i.e. risk ratings and duration), and represents an aggregate of conditional prepayment rate curves for each credit grade or Borrower Loan category. Each point on a particular Borrower Loan category’s curve represents the percentage of principal expected to prepay per period based on the term and age of the underlying Borrower Loans. Prepayments reduce servicing revenues as they shorten the period over which we expect to collect fees on the Borrower Loans, which is used to project future servicing revenues.

6. Available for Sale Investments, at Fair Value

Available for sale investments are recorded at fair value and unrealized gains and losses are reported, net of taxes, in accumulated other comprehensive income (loss) included in stockholders' equity unless management determines that an investment is other-than-temporarily impaired (OTTI).

The amortized cost, gross unrealized gains and losses, and fair value of available for sale investments as of June 30, 2016 and December 31, 2015, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2016				
Fixed maturity securities:				
Corporate debt securities	\$ 37,453	\$ 49	\$ (9)	\$ 37,493
Commercial paper	3,899	-	-	3,899
US Treasury securities	10,533	28	-	10,561
Agency bonds	2,499	11	-	2,510
Total fixed maturity securities	54,384	88	(9)	54,463
Short term bond funds	1,250	-	-	1,250
Total Available for Sale Investments	\$ 55,634	\$ 88	\$ (9)	\$ 55,713

December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturity securities:				
Corporate debt securities	\$ 50,327	\$ 1	\$ (94)	\$ 50,234
Commercial paper	9,493	-	-	9,493
US Treasury securities	8,512	-	(41)	8,471
Agency bonds	2,499	-	(8)	2,491
Total fixed maturity securities	70,831	1	(143)	70,689
Short term bond funds	2,500	-	(2)	2,498
Total Available for Sale Investments	\$ 73,331	\$ 1	\$ (145)	\$ 73,187

A summary of available for sale investments with unrealized losses as of June 30, 2016, and December 31, 2015, aggregated by category and period of continuous unrealized loss, is as follows:

June 30, 2016	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturity securities:						
Corporate debt securities	\$ 9,753	\$ (9)	\$ -	\$ -	\$ 9,753	\$ (9)
U.S. treasury securities	-	-	-	-	-	-
Agency bonds	-	-	-	-	-	-
Total fixed maturity securities	9,753	(9)	-	-	9,753	(9)
Short term bond funds	-	-	-	-	-	-
Total Investments with Unrealized Losses	\$ 9,753	\$ (9)	\$ -	\$ -	\$ 9,753	\$ (9)

December 31, 2015	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturity securities:						
Corporate debt securities	\$ 45,375	\$ (94)	\$ -	\$ -	\$ 45,375	\$ (94)
U.S. treasury securities	8,471	(41)	-	-	8,471	(41)
Agency bonds	2,491	(8)	-	-	2,491	(8)
Total fixed maturity securities	56,337	(143)	-	-	56,337	(143)
Short term bond funds	2,498	(2)	-	-	2,498	(2)
Total Investments with Unrealized Losses	\$ 58,835	\$ (145)	\$ -	\$ -	\$ 58,835	\$ (145)

There were no impairment charges recognized during the six months ended June 30, 2016.

The maturities of available for sale investments at June 30, 2016, and December 31, 2015, are as follows:

June 30, 2016	Within 1 year		After 1 year through 5 years		After 5 years to 10 years		After 10 years		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate debt securities	\$ 28,677	\$ 8,816	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 37,493	\$ -
Commercial paper	3,899	-	-	-	-	-	-	-	3,899	-
US Treasury securities	3,006	7,555	-	-	-	-	-	-	10,561	-
Agency bonds	-	2,510	-	-	-	-	-	-	2,510	-
Total Fair Value	\$ 35,582	\$ 18,881	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 54,463	\$ -
Total Amortized Cost	\$ 35,560	\$ 18,824	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 54,384	\$ -

December 31, 2015	Within 1 year	After 1 year through 5 years	After 5 years to 10 years	After 10 years	Total
Corporate debt securities	\$ 26,289	\$ 23,945	\$ -	\$ -	\$ 50,234
Commercial paper	9,493	-	-	-	9,493
US Treasury securities	-	8,471	-	-	8,471
Agency bonds	-	2,491	-	-	2,491
Total Fair Value	\$ 35,782	\$ 34,907	\$ -	\$ -	\$ 70,689
Total Amortized Cost	\$ 35,831	\$ 35,000	\$ -	\$ -	\$ 70,831

During the three and six months ended June 30, 2016, Prosper sold \$9.2 million of investments which resulted in a realized gain of \$6 thousand.

7. Fair Value of Assets and Liabilities

Prosper measures the fair value of assets and liabilities in accordance with its fair value hierarchy which prioritizes information used to measure fair value and the effect of fair value measurements on earnings and provides for enhanced disclosures determined by the level within the hierarchy of information used in the valuation. We apply this framework whenever other standards require (or permit) assets or liabilities to be measured at fair value.

Assets and liabilities carried at fair value on the balance sheets are classified among three levels based on the observability of the inputs used to determine fair value:

Level 1 — The valuation is based on quoted prices in active markets for identical instruments.

Level 2 — The valuation is based on observable inputs such as quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation methodologies for which all significant assumptions are observable in the market.

Level 3 — The valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the instrument. Level 3 valuations are typically performed using pricing models, discounted cash flow methodologies, or similar methodologies, which incorporate management's own estimates of assumptions that market participants would use in pricing the instrument or valuations that require significant management judgment or estimation.

Fair values of assets or liabilities are determined based on the fair value hierarchy, which requires an entity to maximize the use of quoted prices and observable inputs and to minimize the use of unobservable inputs when measuring fair value. Various valuation methodologies are utilized, depending on the nature of the financial instrument, including the use of market prices for identical or similar instruments, or discounted cash flow models. When possible, active and observable market data for identical or similar financial instruments are utilized. Alternatively, fair value is determined using assumptions that management believes a market participant would use in pricing the asset or liability.

Financial instruments consist principally of Cash and Cash Equivalents, Restricted Cash, Available for Sale Investments, Borrower Loans, Loans Held for Sale, Accounts Receivable, Accounts Payable and Accrued Liabilities, Payable to Investors and Notes. Servicing Assets and Liabilities are also subject to fair value measurement within the financial statements of Prosper. The estimated fair values of Cash and Cash Equivalents, Restricted Cash, Accounts Receivable, Accounts Payable and Accrued Liabilities, and Payable to Investors approximate their carrying values because of their short term nature.

Financial Instruments Recorded at Fair Value

The fair value of the Borrower Loans, Loans Held for Sale and Notes are estimated using discounted cash flow methodologies based upon a set of valuation assumptions. The primary cash flow assumptions used to value such Borrower Loans, Loans Held for Sale and Notes include default rates derived from historical performance and discount rates applied to each credit grade based on the perceived credit risk of each credit grade.

Investments held at fair value consist of available for sale investments. The available for sale investments consist of corporate debt securities, commercial paper, U.S. treasury securities, agency bonds and short term bond funds. When available, Prosper uses quoted prices in active markets to measure the fair value of securities available for sale. When utilizing market data and bid-ask spreads, Prosper uses the price within the bid-ask spread that best represents fair value. When quoted prices do not exist, Prosper uses prices obtained from independent third-party pricing services to measure the fair value of investment assets. Prosper

generally obtains prices from at least two independent pricing sources for assets recorded at fair value. Prosper's primary independent pricing service provides prices based on observable trades and discounted cash flows that incorporate observable information, such as yields for similar types of securities (a benchmark interest rate plus observable spreads) and weighted-average maturity for the same or similar securities. Prosper compares the prices obtained from its primary independent pricing service to the prices obtained from the additional independent pricing services to determine if the price obtained from the primary independent pricing service is reasonable. Prosper does not adjust the prices received from independent third-party pricing services unless such prices are inconsistent with the definition of fair value and result in a material difference in the recorded amounts.

The following tables present the fair value hierarchy for assets and liabilities measured at fair value (in thousands):

June 30, 2016	Level 1 Inputs		Level 2 Inputs		Level 3 Inputs		Total	
Assets:								
Borrower Loans	\$	-	\$	-	\$	310,034	\$	310,034
Loans Held for Sale		-		-		4,705		4,705
Available for Sale Investments, at Fair Value		-		55,713		-		55,713
Servicing Assets		-		-		14,297		14,297
Total Assets		-		55,713		329,036		384,749
Liabilities:								
Notes	\$	-	\$	-	\$	309,530	\$	309,530
Servicing Liabilities		-		-		324		324
Contingent Consideration		-		-		4,929		4,929
Total Liabilities	\$	-	\$	-	\$	314,783	\$	314,783
December 31, 2015								
	Level 1 Inputs		Level 2 Inputs		Level 3 Inputs		Total	
Assets:								
Borrower Loans	\$	-	\$	-	\$	297,273	\$	297,273
Loans Held for Sale		-		-		32		32
Available for Sale Investments, at Fair Value		-		73,187		-		73,187
Servicing Assets		-		-		14,363		14,363
Total Assets		-		73,187		311,668		384,855
Liabilities:								
Notes	\$	-	\$	-	\$	297,405	\$	297,405
Servicing Liabilities		-		-		484		484
Contingent Consideration		-		-		4,801		4,801
Total Liabilities	\$	-	\$	-	\$	302,690	\$	302,690

As Prosper's Borrower Loans, Loans Held for Sale, Notes and loan servicing rights do not trade in an active market with readily observable prices, Prosper uses significant unobservable inputs to measure the fair value of these assets and liabilities. Financial instruments are categorized in the level 3 valuation hierarchy based on the significance of unobservable factors in the overall fair value measurement. These fair value estimates may also include observable, actively quoted components derived from external sources. As a result, the realized and unrealized gains and losses for assets and liabilities within the level 3 category may include changes in fair value that were attributable to both observable and unobservable inputs.

Significant Unobservable Inputs

The following tables present quantitative information about the significant unobservable inputs used for Prosper's level 3 fair value measurements at June 30, 2016 and December 31, 2015:

Borrower Loans, Loans Held for Sale and Notes:

Unobservable Input	Range	
	June 30, 2016	December 31, 2015
Discount rate	4.4% - 15.0%	4.3% - 14.5%
Default rate	1.6% - 14.8%	1.4% - 14.4%

Servicing Rights

Unobservable Input	Range	
	June 30, 2016	December 31, 2015
Discount rate	15% - 25%	15% - 25%
Default rate	1.1% - 15.0%	1.2% - 14.7%
Prepayment rate	14.8% - 27.6%	14.3% - 25.6%
Market servicing rate	0.625%	0.625%

At June 30, 2016, the discounted cash flow methodology used to estimate the Note fair values used the same projected cash flows as the related Borrower Loans. As demonstrated in the following table, the fair value adjustments for Borrower Loans were largely offset by the fair value adjustments of the Notes due to the borrower payment dependent design of the Notes and because the principal balances of the Borrower Loans approximated the principal balances of the Notes.

The following tables present additional information about level 3 Borrower Loans, Loans Held for Sale and Notes measured at fair value on a recurring basis (in thousands):

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Borrower Loans	Notes	Loans Held for Sale	Total
Balance at January 1, 2016	\$ 297,273	\$ (297,405)	\$ 32	\$ (100)
Purchase of Borrower Loans/Issuance of Notes	109,215	(109,147)	1,358,011	1,358,079
Principal repayments	(82,376)	83,119	(136)	607
Borrower Loans sold to third parties	(1,138)	1,081	(1,353,202)	(1,353,259)
Other changes	(6)	(33)	-	(39)
Change in fair value	(12,934)	12,855	-	(79)
Balance at June 30, 2016	<u>\$ 310,034</u>	<u>\$ (309,530)</u>	<u>\$ 4,705</u>	<u>\$ 5,209</u>

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Borrower Loans	Notes	Loans Held for Sale	Total
Balance at January 1, 2015	\$ 273,243	\$ (273,783)	\$ 8,463	\$ 7,923
Purchase of Borrower Loans/Issuance of Notes	94,512	(94,575)	1,402,499	1,402,436
Principal repayments	(73,457)	73,509	(543)	(491)
Borrower Loans sold to third parties	-	-	(1,408,883)	(1,408,883)
Other changes	(130)	136	(9)	(3)
Change in fair value	(9,968)	10,085	(96)	21
Balance at June 30, 2015	<u>\$ 284,200</u>	<u>\$ (284,628)</u>	<u>\$ 1,431</u>	<u>\$ 1,003</u>

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Borrower Loans	Notes	Loans Held for Sale	Total
Balance at April 1, 2015	\$ 280,404	\$ (280,801)	\$ 1,599	\$ 1,202
Purchase of Borrower Loans/Issuance of Notes	46,805	(46,779)	861,574	861,600
Principal repayments	(37,395)	37,440	(157)	(112)
Borrower Loans sold to third parties	-	-	(861,574)	(861,574)
Other changes	(136)	(71)	(1)	(208)
Change in fair value	(5,478)	5,583	(10)	95
Balance at June 30, 2015	<u>\$ 284,200</u>	<u>\$ (284,628)</u>	<u>\$ 1,431</u>	<u>\$ 1,003</u>

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Borrower Loans	Notes	Loans Held for Sale	Total
Balance at April 1, 2016	\$ 303,243	\$ (302,357)	\$ 30	\$ 916
Purchase of Borrower Loans/Issuance of Notes	54,044	(53,873)	426,591	426,762
Principal repayments	(41,390)	41,057	(131)	(464)
Borrower Loans sold to third parties	(525)	499	(421,784)	(421,810)
Other changes	(2)	(191)	-	(193)
Change in fair value	(5,336)	5,335	(1)	(2)
Balance at June 30, 2016	<u>\$ 310,034</u>	<u>\$ (309,530)</u>	<u>\$ 4,705</u>	<u>\$ 5,209</u>

The following tables present additional information about level 3 servicing assets and liabilities measured at fair value on a recurring basis (in thousands):

	Servicing Assets	Servicing Liabilities
Fair Value at January 1, 2016	14,363	484
Additions	5,750	9
Less: Changes in fair value	(5,816)	(169)
Fair Value at June 30, 2016	<u>14,297</u>	<u>324</u>

	Servicing Assets	Servicing Liabilities
Amortized Cost at January 1, 2015	4,163	624
Adjustment to Adopt Fair Value Measurement	546	(29)
Fair Value at January 1, 2015	4,709	595
Additions	5,837	193
Less: Changes in fair value	(1,864)	(182)
Fair Value at June 30, 2015	<u>8,682</u>	<u>606</u>

	Servicing Assets	Servicing Liabilities
Fair Value at April 1, 2016	15,548	398
Additions	1,729	-
Less: Changes in fair value	(2,980)	(74)
Fair Value at June 30, 2016	<u>14,297</u>	<u>324</u>

	Servicing Assets	Servicing Liabilities
Fair Value at April 1, 2015	6,034	668
Additions	3,759	39
Less: Changes in fair value	(1,111)	(101)
Fair Value at June 30, 2015	<u>8,682</u>	<u>606</u>

Contingent Consideration:

On October 9, 2015, PMI, purchased 100% of the outstanding shares of BillGuard. The contingent consideration was primarily performance-based and will be determined over a one-year period from the date of purchase. Total contingent consideration due in October 2016 is based on revenues generated and other criteria. We measured the fair value of the contingent consideration using a probability-weighted discounted cash flow approach. Some of the significant inputs used for the valuation are not observable in the market and are thus Level 3 inputs. Contingent consideration is recorded in the condensed consolidated balance sheet under "Other Liabilities." Significant increases or decreases in certain underlying assumptions used to value the contingent consideration could significantly increase or decrease the fair value estimates recorded in the condensed consolidated balance sheets. During the three and six month periods ended June 30, 2016, there were fair value changes of \$63 thousand and \$128 thousand, respectively, resulting in a fair value of \$4.9 million at June 30, 2016 from the opening fair value at January 1, 2016 of \$4.8 million.

Significant Recurring Level 3 Fair Value Asset and Liability Input Sensitivity

Key economic assumptions and the sensitivity of the current fair value to immediate changes in those assumptions at June 30, 2016 for Borrower Loans, Loans Held for Sale and Notes funded through the Note Channel are presented in the following table (in thousands, except percentages):

	Borrower Loans and Loans Held for Sale	Notes
Discount rate assumption:	7.25 %*	7.25 %*
Resulting fair value from:		
100 basis point increase	\$ 306,868	\$ 306,363
200 basis point increase	303,781	303,277
Resulting fair value from:		
100 basis point decrease	\$ 313,283	\$ 312,780
200 basis point decrease	316,619	316,116
Default rate assumption:	11.02 %*	11.02 %*
Resulting fair value from:		
100 basis point increase	\$ 306,882	\$ 306,370
200 basis point increase	303,823	303,303
Resulting fair value from:		
100 basis point decrease	\$ 313,200	\$ 312,704
200 basis point decrease	316,399	315,913

* Represents weighted average assumptions considering all credit grades.

The following table presents the estimated impact on Prosper's estimated fair value of servicing assets and liabilities, calculated using different market servicing rates and different default rates as of June 30, 2016 (in thousands, except percentages).

	Servicing Assets	Servicing Liabilities
Market servicing rate assumptions	0.625 %	0.625 %
Resulting fair value from:		
Market servicing rate increase to 0.65%	13,252	\$ 356
Market servicing rate decrease to 0.60%	15,342	\$ 291
Weighted average prepayment assumptions	20.44 %	20.44 %
Resulting fair value from:		
Applying a 1.1 multiplier to prepayment rate	13,918	\$ 303
Applying a 0.9 multiplier to prepayment rate	14,451	\$ 314
Weighted average default assumptions	11.39 %	11.39 %
Resulting fair value from:		
Applying a 1.1 multiplier to default rate	\$ 14,067	\$ 323
Applying a 0.9 multiplier to default rate	\$ 14,530	\$ 323

These sensitivities are hypothetical and should be evaluated with care. The effect on fair value of a variation in assumptions generally cannot be determined because the relationship of the change in assumptions to the fair value may not be linear. Additionally, the impact of a variation in a particular assumption on the fair value is calculated while holding other assumptions constant. In reality, changes in one factor may lead to changes in other factors, which could impact the above hypothetical effects.

8. Acquisitions

On January 23, 2015, PMI acquired all of the outstanding limited liability company interests of American HealthCare Lending, and merged American HealthCare Lending with and into PHL, with PHL surviving the merger. In January 2015, PMI completed the allocation of the purchase price of the acquisition of American HealthCare Lending to acquired assets and liabilities.

On October 9, 2015, PMI acquired all of the outstanding shares of BillGuard. PMI merged BillGuard with and into Beach Merger Sub, Inc., a newly established entity wholly owned by PMI, with BillGuard surviving the merger. The allocation of the purchase price is preliminary and subject to further adjustment as information relative to closing date balances and related tax balances are finalized.

9. Goodwill and Other Intangible Assets

Goodwill

Prosper's goodwill balance of \$36.4 million at June 30, 2016 did not change during the six months ended June 30, 2016. We did not record any goodwill impairment expense for the six months ended June 30, 2016.

Other Intangible Assets

The following table presents the detail of other intangible assets for the period presented (dollars in thousands):

	June 30, 2016			Remaining Useful Life (In Years)
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	
User base and customer relationships	\$ 6,250	\$ (1,976)	\$ 4,274	8.6
Developed technology	8,310	(1,508)	\$ 6,802	4.3
Brand name	60	(60)	-	-
Total intangible assets subject to amortization	<u>\$ 14,620</u>	<u>\$ (3,544)</u>	<u>\$ 11,076</u>	

Prosper's intangible asset balance was \$11.1 million and \$13.1 million at June 30, 2016 and December 31, 2015, respectively.

The user base and customer relationship intangible assets are being amortized on an accelerated basis over a three to ten year period. The technology and brand name intangible assets are being amortized on a straight line basis over three to five years and one year, respectively.

Amortization expense for the three months ended June 30, 2016 and 2015 was \$1.0 million and \$0.3 million, respectively. Amortization expense for the six months ended June 30, 2016 and 2015 was \$2.0 million and \$0.3 million, respectively. Estimated amortization of purchased intangible assets for future periods is as follows (in thousands):

Year Ending December 31,	
2016	\$ 1,862
2017	3,260
2018	2,329
2019	1,779
2020	1,344
Thereafter	502
Total	<u>\$ 11,076</u>

10. Other Liabilities

Other Liabilities includes the following:

	June 30, 2016	December 31, 2015
Class action settlement liability	\$ 2,973	\$ 5,949
Repurchase liability for unvested restricted stock awards	267	473
Contingent consideration	4,929	4,801
Deferred revenue	420	1,591
Servicing liabilities	324	484
Deferred rent	4,647	5,240
Restructuring liability	8,492	-
Other	2,364	2,197
Total Other Liabilities	<u>\$ 24,416</u>	<u>\$ 20,735</u>

11. Net Loss Per Share

The weighted average shares used in calculating basic and diluted net loss per share excludes certain shares that are disclosed as outstanding shares in the condensed consolidated balance sheets because such shares are restricted as they were associated with options that were early exercised and continue to remain unvested.

Basic and diluted net loss per share was calculated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Numerator:				
Net loss available to common stockholders for basic and diluted EPS	\$ (35,628)	\$ (6,201)	\$ (53,092)	\$ (13,477)
Denominator:				
Weighted average shares used in computing basic and diluted net loss per share	63,270,058	55,612,485	61,813,773	54,168,175
Basic and diluted net loss per share	<u>\$ (0.56)</u>	<u>\$ (0.11)</u>	<u>\$ (0.86)</u>	<u>\$ (0.25)</u>

The following common stock equivalents were excluded from the computation of diluted net loss per share for the periods presented because including them would have been anti-dilutive:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(shares)	(shares)	(shares)	(shares)
Excluded securities:				
Convertible preferred stock issued and outstanding	177,388,425	35,477,685	177,388,425	35,477,685
Stock options issued and outstanding	43,719,604	6,982,320	41,694,271	6,478,422
Unvested stock options exercised	5,345,950	3,084,604	5,345,950	3,084,604
Warrants issued and outstanding	962,113	123,467	792,449	123,467
Total common stock equivalents excluded from diluted net loss per common share computation	<u>227,416,092</u>	<u>45,668,076</u>	<u>225,221,095</u>	<u>45,164,178</u>

The number of shares issued and outstanding reflect a 5-for-1 forward stock split effected by PMI on February 16, 2016.

12. Convertible Preferred Stock and Stockholders' Deficit

Convertible Preferred Stock

The number of authorized, issued and outstanding shares, their par value and liquidation preference for each series of convertible preferred stock as of June 30, 2016 are disclosed in the table below (amounts in thousands except share and per share amounts):

Convertible Preferred Stock	Par Value	Authorized shares	Outstanding and Issued shares	Liquidation Preference
New Series A	\$ 0.01	68,558,220	68,558,220	\$ 19,774
Series A-1	0.01	24,760,915	24,760,915	49,522
New Series B	0.01	35,775,880	35,775,880	21,581
New Series C	0.01	24,404,770	24,404,770	70,075
New Series D	0.01	23,888,640	23,888,640	165,000
		<u>177,388,425</u>	<u>177,388,425</u>	<u>\$ 325,952</u>

The number of shares issued and outstanding reflect a 5-for-1 forward stock split effected by PMI on February 16, 2016.

Common Stock

PMI, through its amended and restated certificate of incorporation, as amended, is the sole issuer of common stock and related options, RSUs and warrants. On February 16, 2016, PMI amended and restated its certificate of incorporation to, among other things, effect a 5-for-1 forward stock split. On May 31, 2016, PMI further amended its amended and restated certificate of incorporation to increase the number of shares of common stock authorized for issuance. The total number of shares of stock which PMI has the authority to issue is 475,610,528, consisting of 298,222,103 shares of common stock, \$0.01 par value per share, and 177,388,425 shares of preferred stock, \$0.01 par value per share. As of June 30, 2016, 70,893,225 shares of common stock were issued and 69,957,290 shares of common stock were outstanding. As of December 31, 2015, 70,367,425 shares of common stock were issued and 69,431,490 shares of common stock were outstanding. Each holder of common stock is entitled to one vote for each share of common stock held.

Common Stock Issued upon Exercise of Stock Options

During the six months ended June 30, 2016, PMI issued 334,475 shares of common stock upon the exercise of vested options for cash proceeds of \$0.3 million. Certain options are eligible for exercise prior to vesting. These unvested options may be exercised for restricted shares of common stock that have the same vesting schedule as the options. Prosper records a liability for the exercise price paid upon the exercise of unvested options, which is reclassified to common stock and additional paid-in capital as the shares vest. Should the holder's employment be terminated, the unvested restricted shares are subject to repurchase by PMI at an amount equal to the exercise price paid for such shares. At June 30, 2016 and December 31, 2015, there were 5,345,950 and 9,806,170 shares, respectively, of restricted stock outstanding that remain unvested and subject to Prosper's right of repurchase.

For the six months ended June 30, 2016, PMI repurchased 51,105 shares of restricted stock for \$46 thousand upon termination of employment of various employees.

Common Stock Issued upon Exercise of Warrants

For the six months ended June 30, 2016, PMI issued 51,915 shares of common stock upon the exercise of warrants for aggregate proceeds of \$11 thousand.

13. Share Based Incentive Plan and Compensation

In 2005, PMI's stockholders approved the adoption of the 2005 Stock Plan. On December 1, 2010, PMI's stockholders approved the adoption of the Amended and Restated 2005 Stock Plan (the "2005 Plan"). The 2005 Plan expired during the year ending December 31, 2015 and PMI's stockholders approved the adoption of the 2015 Equity Incentive Plan. On February 15, 2016, PMI's stockholders approved the adoption of an Amendment No. 1 to the 2015 Equity Incentive Plan, and on May 31, 2016, PMI's

stockholders approved the adoption of an Amendment No. 2 to the 2015 Equity Incentive Plan (as amended to date, the “2015 Plan”). As of June 30, 2016 under the 2005 Plan, up to 59,388,480 shares of common stock are reserved and may be issued to employees, directors, and consultants by PMI’s board of directors and stockholders to promote the success of Prosper’s business. As of June 30, 2016 under the 2015 Plan, up to 51,850,918 shares of common stock are reserved and may be granted to employees, directors, and consultants by PMI’s board of directors and stockholders to promote the success of Prosper’s business. Options generally vest 25% one year from the vesting commencement date and 1/48th per month thereafter or vest 50% two years from the vesting commencement date and 1/48th per month thereafter or vest 1/36th per month from the vesting commencement date. In no event are options exercisable more than ten years after the date of grant.

At June 30, 2016, there were 11,402,606 shares available for grant under the 2015 Plan and zero shares available for grant under the 2005 Plan.

The number of options, restricted stock units and amounts per share reflects a 5-for-1 forward stock split effected by PMI on February 16, 2016.

Stock Option Reprice

On May 3, 2016, the Compensation Committee of the Board of Directors of PMI approved a stock option repricing program, (the “Reprice”) authorizing PMI’s officers to reprice certain outstanding stock options held by employees and directors that have exercise prices above the current fair market value of PMI’s common stock. The repricing was effected on May 16, 2016 for eligible directors and employees located in the United States and on May 19, 2016 for eligible employees located in Israel. Prosper believes the repricing of such stock options will encourage the continued service of valued employees and directors, and motivate such service providers to perform at high levels, both of which are critical to Prosper’s continued success. Prosper expects to incur additional stock based compensation charges as a result of this repricing. The financial statement impact of this repricing is \$1.2 million in the 3 months ended June 30, 2016 and \$4.2 million (net of forfeitures) that will be recognized over the remaining weighted average vesting period of 2.8 years.

Early Exercised Stock Options

The activity of options that were early exercised under the 2005 Plan for the six months ended June 30, 2016 is below:

	<u>Early exercised options, unvested</u>	<u>Weighted average exercise price</u>
Balance as of January 1, 2016	9,806,170	\$ 0.05
Repurchase of restricted stock	(51,105)	0.90
Restricted stock vested	(4,409,115)	0.04
Balance as of June 30, 2016	<u>5,345,950</u>	<u>\$ 0.05</u>

Additional information regarding the unvested early exercised stock options outstanding as of June 30, 2016 is as follows:

Range of Exercise Prices	<u>Options Outstanding</u>		
	<u>Number Outstanding</u>	<u>Weighted –Avg. Remaining Life</u>	<u>Weighted –Avg. Exercise Price</u>
0.02	4,847,590	0.7	\$ 0.02
0.11	387,010	1.6	0.11
1.13	111,350	2.1	1.13
<u>\$0.02 - \$1.13</u>	<u>5,345,950</u>	<u>0.8</u>	<u>\$ 0.05</u>

Stock Option Activity

Stock option activity under the 2005 Plan and 2015 Plan is summarized for the six months ended June 30, 2016 below:

	Options Issued and Outstanding	Weighted- Average Exercise Price
Balance as of January 1, 2016	40,425,605	\$ 2.64
Options issued	19,655,338	\$ 2.14
Options exercised – vested	(334,475)	0.85
Options forfeited	(4,725,406)	1.38
Balance as of June 30, 2016	<u>55,021,062</u>	<u>1.54</u>
Options vested and/or exercisable at June 30, 2016	26,856,397	1.15

Due to the timing of the Reprice, the ending weighted average exercise price shown above reflects repriced options while the opening weighted average exercise price does not.

Other Information Regarding Stock Options

Additional information regarding common stock options outstanding as of June 30, 2016 is as follows:

	<u>Options Outstanding</u>			<u>Options Vested and Exercisable</u>			
	Range of Exercise Prices	Number Outstanding	Weighted – Avg. Remaining Life	Weighted – Avg. Exercise Price	Number Vested	Weighted – Avg. Exercise Price	
\$	0.02 - 0.99	13,462,825	7.41	\$	0.12	13,462,110	\$ 0.12
	1.00 - 2.99	38,325,717	9.34		2.04	11,565,657	1.91
	3.00 - 4.99	1,586,875	8.63		3.62	1,586,875	3.62
	5.00 - 5.52	1,645,645	9.14		5.49	241,755	5.46
\$	0.02 - 5.52	<u>55,021,062</u>	<u>8.84</u>	\$	<u>1.72</u>	<u>26,856,397</u>	<u>\$ 1.15</u>

The fair value of options granted to employees is estimated on the grant date using the Black-Scholes option valuation model. This valuation model for stock-based compensation expense requires Prosper to make assumptions and judgments about the variables used in the calculation, including the fair value of PMI's common stock, the expected term (the period of time that the options granted are expected to be outstanding), the volatility of PMI's common stock, a risk-free interest rate, and expected dividends. Given the absence of a publicly traded market, Prosper considered numerous objective and subjective factors to determine the fair value of PMI's common stock at each grant date. These factors included, but were not limited to: (i) contemporaneous valuations of common stock performed by unrelated third-party specialists; (ii) the prices for PMI's preferred stock sold to outside investors; (iii) the rights, preferences and privileges of PMI's preferred stock relative to PMI's common stock; (iv) the lack of marketability of PMI's common stock; (v) developments in the business; (vi) secondary transactions of PMI's common and preferred shares and (vii) the likelihood of achieving a liquidity event, such as an initial public offering or a merger or acquisition of Prosper, given prevailing market conditions. As PMI's stock is not publically traded volatility for stock options is based on an average of the historical volatilities of the common stock of several entities with characteristics similar to those of Prosper. The expected term assumptions were determined based on the vesting terms, exercise terms and contractual lives of the options using the simplified method. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option. Prosper uses an expected dividend yield of zero as it does not anticipate paying any dividends in the foreseeable future.

Prosper also estimates forfeitures of unvested stock options. Expected forfeitures are based on Prosper's historical experience. To the extent actual forfeitures differ from the estimates, the difference will be recorded as a cumulative adjustment in the period estimates are revised. No compensation cost is recorded for options that do not vest.

The fair value of PMI's stock option awards granted during the three months ended June 30, 2016 and 2015 was estimated at the date of grant using the Black-Scholes model with the following average assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Volatility of common stock	50.88%	52.75%	50.88%	57.26%
Risk-free interest rate	1.29%	1.80%	1.29%	1.72%
Expected life	5.8 years	6.0 years	5.8 years	6.1 years
Dividend yield	0%	0%	0%	0%

Restricted Stock Unit Activity

During the six months ended June 30, 2016, PMI granted restricted stock units ("RSUs") to certain employees that are subject to three-year vesting terms or four year vesting terms and the occurrence of a liquidity event.

The aggregate fair value of the RSUs granted was \$10.7 million. The following table summarizes the activities for PMI's RSUs during the six months ending June 30, 2016:

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested - December 31, 2015	1,835,510	\$ 5.52
Granted	3,580,220	2.14
Vested	-	-
Forfeited	(1,274,920)	2.14
Unvested - June 30, 2016	<u>4,140,810</u>	<u>\$ 2.59</u>

The following table presents the amount of stock-based compensation related to stock-based awards granted to employees recognized in Prosper's condensed consolidated statements of operations during the three months ended June 30, 2016 and 2015 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Origination and servicing	\$ 579	\$ 292	\$ 1,018	\$ 436
Sales and marketing	896	676	1,632	1,065
General and administrative	4,884	1,784	8,815	2,691
Restructuring	45	-	45	-
Total stock based compensation	<u>\$ 6,404</u>	<u>\$ 2,752</u>	<u>\$ 11,510</u>	<u>\$ 4,192</u>

During the three months ended June 30, 2016 and 2015, Prosper capitalized \$225 thousand and \$175 thousand respectively, of stock-based compensation as internal use software and website development costs. During the six months ended June 30, 2016 and 2015, Prosper capitalized \$436 thousand and \$297 thousand respectively, of stock-based compensation as internal use software and website development costs. As of June 30, 2016, the unamortized stock-based compensation expense adjusted for forfeiture estimates related to Prosper's employees' unvested stock-based awards was approximately \$58.6 million, which will be recognized over the remaining weighted-average vesting period of approximately 2.77 years.

Management modified or accelerated the vesting terms for certain employee options, which resulted in an additional \$0.7 million and \$0.1 million of stock-based compensation expense for the three months ended June 30, 2016 and 2015, respectively.

14. Restructuring

Summary of Restructuring Plan

On May 3, 2016, Prosper adopted a strategic restructuring of its business. This restructuring is intended to streamline our operations and support future growth efforts. Under this restructuring, Prosper closed its Salt Lake City, Utah location. As a result of this restructuring, Prosper will terminate 167 employees across all locations. In connection with the restructuring, Prosper has recognized employee severance and benefits charges of approximately \$5.4 million in the second quarter which were included in “Restructuring Charges” within the condensed consolidated statement of operations, and expects to incur \$0.2 million in the third quarter of 2016 related to these charges. The actions associated with this restructuring are expected to be fully completed by the third quarter of 2016.

In addition to the employment costs associated with the restructuring, Prosper is also engaged in marketing for sublease, space in our existing office space that is no longer needed due to the reduction in headcount. In total, the losses incurred on the leases in San Francisco, Salt Lake City and Phoenix totaled \$8.7 million which has been included in “Restructuring Charges” within the condensed consolidated statement of operations. Prosper expects to incur an additional \$0.2 million in the third quarter of 2016 related to the facilities related charges.

The following table summarizes the activities related to Prosper's restructuring plan (in thousands):

	Severance Related *	Facilities Related	Total
Balance April 1, 2016	\$ -	\$ -	\$ -
Additions to expense	5,400	8,661	14,061
Transfer from deferred rent	-	764	764
Less: Cash paid	(3,362)	(933)	(4,295)
Balance June 30, 2016	<u>\$ 2,038</u>	<u>\$ 8,492</u>	<u>\$ 10,530</u>

* Severance related restructuring costs excludes non-cash charges related to vesting of equity incentives for fully-vested employees terminated as part of the Restructuring of \$45 thousand

15. Income Taxes

For the three months ended June 30, 2016 and 2015, Prosper recognized \$105 thousand and \$176 thousand of income tax expense, respectively. For the six months ended June 30, 2016 and 2015, Prosper recognized \$270 thousand and \$249 thousand of income tax expense, respectively. The income tax expense relates to state income tax expense and the amortization of tax deductible goodwill which gives rise to an indefinite-lived deferred tax liability. No other income tax expense or benefit was recorded for the six month periods ended June 30, 2016 and 2015 due to a full valuation allowance recorded against our deferred tax assets.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize our existing deferred tax assets. On the basis of this evaluation, it is not more likely than not that our deferred tax assets will be realized and therefore a full valuation allowance has been recorded.

16. Commitments and Contingencies

Future Minimum Lease Payments

Prosper has entered into various non-cancelable operating leases for certain offices with contractual lease periods expiring between 2022 and 2027.

Future minimum rental payments under these leases as of June 30, 2016 are as follows (in thousands):

Remaining six months of 2016	3,674
2017	8,888
2018	9,524
2019	9,732
2020	10,225
2021	10,313
Thereafter	26,102
Total future operating lease obligations	<u>\$ 78,458</u>

Rental expense under operating lease arrangements was \$1.9 million and \$0.9 million for the three months ended June 30, 2016 and 2015, respectively. Rental expense under operating lease arrangements was \$3.7 million and \$1.7 million for the six months ended June 30, 2016 and 2015, respectively.

Operating Commitments

Prosper has an agreement with WebBank, under which all Borrower Loans originated through the marketplace are made by WebBank under its bank charter. The arrangement allows for Borrower Loans to be offered to borrowers at uniform nationwide terms. Prosper is required to pay the greater of a monthly minimum fee or a fee calculated based on a certain percentage of monthly Borrower Loan origination volume. The minimum fee for the remaining six months ended December 31, 2016 is \$0.8 million. The minimum fee is \$1.7 million, \$1.7 million and \$1.0 million for years 2017, 2018 and 2019, respectively.

Loan Purchase Commitments

Prosper has entered into an agreement with WebBank to purchase \$7.8 million of Borrower Loans that WebBank originated during the last business day of the quarter ended June 30, 2016 and the first business day of the quarter ending September 30, 2016. Prosper will purchase these Borrower Loans within the first two business days of the quarter ended June 30, 2016.

Repurchase and Indemnification Contingency

Under the terms of the loan purchase agreements between Prosper and investors that participate in the Whole Loan Channel, Prosper may, in certain circumstances, become obligated to repurchase a Borrower Loan from an investor. Generally, these circumstances include the occurrence of verifiable identity theft, the failure to properly follow loan listing or bidding protocols, or a violation of the applicable federal, state, or local lending laws. The fair value of the indemnification and repurchase obligation is estimated based on historical experience and the initial fair value is insignificant. Prosper recognizes a liability for the repurchase and indemnification obligation when the Borrower Loans are issued. Indemnified or repurchased Borrower Loans associated with violations of federal, state, or local lending laws or verifiable identity theft are written off at the time of repurchase or at the time an indemnification payment is made. The maximum potential amount of future payments associated under this obligation is the outstanding balances of the Borrower Loans issued through the Whole Loan Channel, which at June 30, 2016 is \$4,063 million. Prosper has accrued \$489 thousand and \$510 thousand as of June 30, 2016 and December 31, 2015, respectively, in regard to this obligation.

Securities Law Compliance

From inception through October 16, 2008, Prosper sold approximately \$178.0 million of Borrower Loans to investors through its old platform structure, whereby Prosper assigned promissory notes directly to investors. Prosper did not register the offer and sale of the promissory notes corresponding to these Borrower Loans under the Securities Act or under the registration or qualification provisions of any state securities laws. Prosper believes that the question of whether or not the operation of the platform during this period constituted an offer or sale of “securities” involved a complicated factual and legal analysis and was uncertain. If the sales of promissory notes offered through the platform during this period were viewed as a securities offering, Prosper would have failed to comply with the registration and qualification requirements of federal and state laws.

In 2008, plaintiffs filed a class action lawsuit against Prosper and certain of its executive officers and directors in the Superior Court of California, County of San Francisco, California. The suit was brought on behalf of all promissory note purchasers on the platform from January 1, 2006 through October 14, 2008. The lawsuit alleged that Prosper offered and sold unqualified and unregistered securities in violation of the California and federal securities laws. On July 19, 2013 solely to avoid the costs, risks and uncertainties inherent in litigation, and without admitting any liability or wrongdoing, the parties to the class action litigation agreed to enter into a settlement to resolve all claims related thereto (the “Settlement”). In connection with the Settlement, Prosper agreed to pay an aggregate amount of \$10 million into a settlement fund, split into four annual installments of \$2 million in 2014, \$2 million in 2015, \$3 million in 2016 and \$3 million in 2017. The Settlement received final approval in a final order and judgment entered by the Superior Court on April 16, 2014. Pursuant to the final order and judgment, the claims in the class action were dismissed, and the defendants were released by the plaintiffs from all claims that were or could have been asserted concerning the issues alleged in the class action lawsuit. The first three annual installments have been made prior to June 30, 2016 and the reserve for the class action settlement liability is \$3.0 million in the condensed consolidated balance sheet as of June 30, 2016.

17. Related Parties

Since Prosper’s inception, it has engaged in various transactions with its directors, executive officers and holders of more than 10% of its voting securities, and immediate family members and other affiliates of its directors, executive officers and 10%

stockholders. Prosper believes that all of the transactions described below were made on terms no less favorable to Prosper than could have been obtained from unaffiliated third parties.

Prosper's executive officers, directors who are not executive officers, and certain affiliates participate in its marketplace by placing bids and purchasing Notes and Borrower Loans. The aggregate amount of the Notes and Borrower Loans purchased and the income earned by parties deemed to be affiliates and related parties of Prosper for the three and six months ended June 30, 2016 and 2015, as well as the Notes and Borrower Loans outstanding as of June 30, 2016 and December 31, 2015 are summarized below (in thousands):

Related Party	Aggregate Amount of Notes and Borrower Loans Purchased		Interest Earned on Notes and Borrower Loans	
	Six Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
Executive officers and management	\$ 801	\$ 846	\$ 110	\$ 98
Directors (excluding executive officers and management)	350	20	15	4
Total	<u>\$ 1,151</u>	<u>\$ 866</u>	<u>\$ 125</u>	<u>\$ 102</u>

Related Party	Aggregate Amount of Notes and Borrower Loans Purchased		Interest Earned on Notes and Borrower Loans	
	Three Months Ended June 30, 2016	2015	Three Months Ended June 30, 2016	2015
Executive officers and management	\$ 396	\$ 365	\$ 61	\$ 51
Directors (excluding executive officers and management)	114	-	9	2
Total	<u>\$ 510</u>	<u>\$ 365</u>	<u>\$ 70</u>	<u>\$ 53</u>

Related Party	Notes and Borrower Loans Balance as of	
	June 30, 2016	December 31, 2015
Executive officers and management	\$ 1,822	\$ 1,912
Directors (excluding executive officers and management)	528	325
Total	<u>\$ 2,350</u>	<u>\$ 2,237</u>

18. Subsequent Events

On July 1, 2016, Prosper and WebBank, an FDIC-insured, Utah-chartered industrial bank ("WebBank"), entered into (i) an Asset Sale Agreement between Prosper Funding and WebBank (the "Sale Agreement"), (ii) a Marketing Agreement between PMI and WebBank (the "Marketing Agreement"), and (iii) a Stand By Purchase Agreement between PMI and WebBank (the "Purchase Agreement," and collectively, the "Origination and Sale Agreements"). As of the effective date of August 1, 2016 these agreements replace the existing agreements with WebBank.

The Origination and Sale Agreements set forth the respective obligations of the Registrants and WebBank with respect to the origination and sales activities of consumer loans originated on or after August 1, 2016. Under the Sale Agreement, WebBank sells and assigns certain consumer loans or related participation rights to Prosper Funding. As consideration for WebBank's agreement to sell and assign such consumer loans or related participation rights, Prosper Funding agrees to pay WebBank certain fees in addition to the purchase price of such consumer loans or participation rights. Under the Marketing Agreement, PMI identifies customers who qualify for WebBank's consumer loans, markets such loan programs and provides an online interface and other operational services in support of such consumer loan program. WebBank pays PMI a marketing fee in consideration for PMI's marketing and other activities under the consumer loan program. Under the Purchase Agreement, PMI has agreed to purchase consumer loans or related participation rights from WebBank in the event that Prosper Funding fails to purchase loans or participation rights that it is obligated to purchase under the Sale Agreement. The initial term of each of the Origination and Sale Agreements is three years.

As a result of entering into these agreements, on August 1st, 2016 Prosper deposited an additional \$5 million into a collateral account. This will reduce Cash and Cash Equivalents while increasing Restricted Cash. Additionally, under this agreement Prosper is required to maintain a minimum liquidity covenant of \$15 million.

Prosper Funding LLC
Condensed Consolidated Balance Sheets (Unaudited)
(amounts in thousands)

	<u>June 30, 2016</u>	<u>December 31, 2015</u>
Assets		
Cash and Cash Equivalents	\$ 6,911	\$ 15,026
Restricted Cash	121,933	139,937
Short Term Investments	1,279	1,277
Loans Held for Sale at Fair Value	4,705	32
Borrower Loans Receivable at Fair Value	310,034	297,273
Property and Equipment, Net	9,854	8,419
Servicing Assets	13,798	13,605
Other Assets	111	122
Total Assets	<u>\$ 468,625</u>	<u>\$ 475,691</u>
Liabilities and Member's Equity		
Accounts Payable and Accrued Liabilities	\$ 1,371	\$ 2,122
Payable to Related Party	4,202	2,989
Payable to Investors	113,610	135,661
Notes at Fair Value	309,530	297,405
Other Liabilities	1,283	1,209
Total Liabilities	<u>429,996</u>	<u>439,386</u>
Member's Equity		
Retained Earnings	38,629	36,305
Total Member's Equity	<u>\$ 38,629</u>	<u>\$ 36,305</u>
Total Liabilities and Member's Equity	<u>\$ 468,625</u>	<u>\$ 475,691</u>

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

Prosper Funding LLC
Condensed Consolidated Statements of Operations (Unaudited)
(amounts in thousands)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues				
Operating Revenues				
Administration Fee Revenue - Related Party	\$ 6,930	\$ 14,213	\$ 22,348	\$ 23,886
Servicing Fees, Net	7,589	3,272	14,623	5,536
Gain (Loss) on Sale of Borrower Loans	(687)	3,696	3,104	5,618
Other Revenues	26	-	417	(22)
Total Operating Revenues	<u>13,858</u>	<u>21,181</u>	<u>40,492</u>	<u>35,018</u>
Interest Income on Borrower Loans	10,988	10,209	21,496	20,723
Interest Expense on Notes	(10,098)	(9,448)	(19,819)	(19,011)
Net Interest Income	890	761	1,677	1,712
Change in Fair Value on Borrower Loans, Loans Held for Sale and Notes, Net	(2)	94	(79)	21
Total Net Revenues	<u>14,746</u>	<u>22,036</u>	<u>42,090</u>	<u>36,751</u>
Expenses				
Administration Fee - Related Party	15,652	14,085	36,258	23,380
Servicing	1,536	899	2,767	2,271
General and Administrative	380	282	737	546
Total Expenses	<u>17,568</u>	<u>15,266</u>	<u>39,762</u>	<u>26,197</u>
Total Net Income	<u>\$ (2,822)</u>	<u>\$ 6,770</u>	<u>\$ 2,328</u>	<u>\$ 10,554</u>

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

Prosper Funding LLC
Condensed Consolidated Statements of Cash Flows (Unaudited)
(amounts in thousands)

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net Income	\$ 2,328	\$ 10,554
Adjustments to Reconcile Net Income to Net Cash (Used in) Provided by Operating Activities:		
Change in Fair Value of Borrower Loans, Loans Held for Sale and Notes	79	2
Other Non-Cash Changes in Borrower Loans, Loans Held for Sale and Notes	39	(21)
Gain on Sale of Borrower Loans	(5,690)	(5,648)
Change in Fair Value of Servicing Rights	5,387	1,291
Depreciation and Amortization	1,864	1,896
Changes in Operating Assets and Liabilities:		
Purchase of Loans Held for Sale at Fair Value	(1,358,011)	(1,402,499)
Proceeds from Sales and Principal Payments of Loans Held for Sale at Fair Value	1,353,338	1,409,426
Restricted Cash Except for those Related to Investing Activities	21,080	(62,390)
Other Assets	11	(14)
Accounts Payable and Accrued Liabilities	(755)	402
Payable to Investors	(22,051)	69,686
Net Related Party Receivable/Payable	2,077	1,387
Other Liabilities	184	
Net Cash (Used in) Provided by Operating Activities	(120)	24,072
Cash Flows From Investing Activities:		
Purchase of Borrower Loans Held at Fair Value	(109,215)	(94,512)
Principal Payment of Borrower Loans Held at Fair Value	83,514	73,457
Maturities of Short Term Investments	1,277	1,274
Purchases of Short Term Investments	(1,279)	(1,275)
Purchases of Property and Equipment	(4,163)	(6,567)
Changes in Restricted Cash Related to Investing Activities	(3,076)	(2,725)
Net Cash Used in Investing Activities	(32,942)	(30,348)
Cash Flows from Financing Activities:		
Proceeds from Issuance of Notes Held at Fair Value	109,147	94,576
Payments of Notes Held at Fair Value	(84,200)	(73,509)
Cash Distributions to Parent	-	(27,000)
Net Cash Provided by/(Used in) Financing Activities	24,947	(5,933)
Net Decrease in Cash and Cash Equivalents	(8,115)	(12,209)
Cash and Cash Equivalents at Beginning of the Year	15,026	23,777
Cash and Cash Equivalents at End of the Year	\$ 6,911	\$ 11,568
Supplemental Disclosure of Cash Flow Information:		
Cash Paid for Interest	\$ 19,787	\$ 19,147
Non-Cash Investing Activity - Accrual for Property and Equipment, Net	\$ 572	-
Non-Cash Financing Activity, Distribution to Parent	-	\$ 249

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

Prosper Funding LLC

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

Prosper Funding LLC (“PFL”) was formed in the state of Delaware on February 17, 2012 as a limited liability company with the sole equity member being Prosper Marketplace, Inc. (“PMI”). Except as the context otherwise requires, as used in these Notes to the condensed consolidated financial statements of Prosper Funding LLC, “Prosper Funding,” “we,” “us,” and “our” refers to PFL and its wholly owned subsidiary, Prosper Asset Holdings LLC (“PAH”), a Delaware limited liability company, on a consolidated basis.

The unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”) and disclosure requirements for interim financial information and the requirements of Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by US GAAP for complete financial statements. The unaudited interim condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2015. The balance sheet at December 31, 2015 has been derived from the audited financial statements at that date. Management believes these unaudited interim condensed consolidated financial statements reflect all adjustments, consisting of a normal recurring nature, which are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period.

Prosper Funding did not have any items of other comprehensive income (loss) during any of the periods presented in the condensed consolidated financial statements as of and for the six months ended June 30, 2016 and 2015.

The preparation of Prosper Funding’s condensed consolidated financial statements and related disclosures in conformity with GAAP requires management to make judgments, assumptions and estimates that affect the amounts reported in its condensed consolidated financial statements and accompanying notes. Management bases its estimates on historical experience and on various other factors it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of certain assets and liabilities. These judgments, estimates and assumptions are inherently subjective in nature and actual results may differ from these estimates and assumptions, and the differences could be material.

Reclassifications

During the period ended June 30, 2016, Prosper Funding changed the presentation of its revenue in the condensed consolidated statements of operations. A new line called “Gain on Sales of Borrower Loans” was created with the amounts included in this line previously classified as “Other Revenue”. The gain on sale related to the sale of Borrower Loans was reclassified from “Other Revenues” to a new line called “Gain on Sales of Borrower Loans.”

2. Significant Accounting Policies

Prosper Funding’s significant accounting policies are included in *Note 2 – Summary of Significant Accounting Policies* in Prosper Funding’s Annual Report on Form 10-K for the year ended December 31, 2015. There have been no changes to these accounting policies during the first six months of 2016.

Fair Value Measurements

Financial instruments consist principally of Cash and Cash Equivalents, Restricted Cash, Short Term Investments, Borrower Loans, Loans Held for Sale, Accounts Receivable, Accounts Payable and Accrued Liabilities, Payable to Investors and Notes. The estimated fair values of Cash and Cash Equivalents, Restricted Cash, Accounts Receivable, Accounts Payable and Accrued Liabilities, and Payable to Investors approximate their carrying values because of their short term nature.

Borrower Loans, Loans Held for Sale and Notes

Through the Note Channel, Prosper Funding purchases Borrower Loans from WebBank then issues Notes, and holds the Borrower Loans until maturity. The obligation to repay a series of Notes funded through the Note Channel is dependent upon the repayment of the associated Borrower Loan. Borrower Loans and Notes funded through the Note Channel are carried on Prosper Funding’s consolidated balance sheets as assets and liabilities, respectively. We choose to measure certain financial instruments and certain other items at fair value on an instrument-by-instrument basis with unrealized gains and losses on items for which the fair value option has been elected reported in earnings. Management believes that the fair value option is more meaningful for the readers

of the financial statements and it allows both the Borrower Loans and Notes to be valued using the same methodology. The fair value election, with respect to an item, may not be revoked once an election is made. Prosper Funding estimates the fair value of such Borrower Loans and Notes using discounted cash flow methodologies that take into account expected prepayments, losses, recoveries and default rates. The Borrower Loans are not derecognized when a corresponding Note is issued as Prosper Funding maintains the ability to sell the Borrower Loans without the approval of the holders of the corresponding Notes.

Recent Accounting Pronouncements

In May 2014, as part of its ongoing efforts to assist in the convergence of US GAAP and International Financial Reporting Standards (“IFRS”), the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “*Revenue from Contracts with Customers*.” The new guidance sets forth a new five-step revenue recognition model which replaces the prior revenue recognition guidance in its entirety and is intended to eliminate numerous industry-specific pieces of revenue recognition guidance that have historically existed in U.S. GAAP. The underlying principle of the new standard is that a business or other organization will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. The standard also requires more detailed disclosures and provides additional guidance for transactions that were not addressed completely in the prior accounting guidance. The standard will be effective for Prosper Funding in the first quarter of fiscal 2018. In August 2015, the FASB issued ASU No. 2015-14, which amended the standard to provide a one-year deferral of the effective date, as well as providing the option to early adopt the standard on the original effective date. Accordingly, Prosper Funding may adopt the standard in either Prosper Funding’s fiscal year ending December 31, 2017 or 2018. The guidance can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. In March 2016, April 2016 and May 2016, the FASB further amended the guidance to clarify the implementation on principal versus agent considerations, the identification of performance obligation and the licensing implementation guidance, and to provide narrow-scope improvements and practical expedients. Prosper Funding has not yet selected a transition method and is evaluating the impact of adopting this new accounting standard update on the consolidated financial statements and related disclosures.

In April 2015, the FASB issued ASU 2015-05 “*Customers’ Accounting for Fees Paid in Cloud Computing Arrangement*”, which became effective for the annual reporting period beginning after December 15, 2015. The guidance changes what a customer must consider in determining whether a cloud computing arrangement contains a software license. If the arrangement contains a software license, the customer would account for the fees related to the software license element in accordance with guidance related to internal use software; if the arrangement does not contain a software license, the customer would account for the arrangement as a service contract. Prosper Funding adopted this guidance on January 1, 2016, and the adoption of this standard did not have a material impact on Prosper Funding’s condensed consolidated financial statements.

3. Property and Equipment

Property and equipment consist of the following (in thousands):

	June 30, 2016	December 31, 2015
Property and equipment:		
Internal-use software and web site development costs	\$ 14,289	\$ 10,990
Less accumulated depreciation and amortization	<u>(4,435)</u>	<u>(2,571)</u>
Total property and equipment, net	<u>\$ 9,854</u>	<u>\$ 8,419</u>

Depreciation expense for the three months ended June 30, 2016 and 2015 was \$981 thousand and \$676 thousand, respectively. Depreciation expense for the six months ended June 30, 2016 and 2015 was \$1,864 thousand and \$1,896 thousand, respectively.

4. Borrower Loans, Loans Held For Sale and Notes Held at Fair Value

The aggregate principal balances outstanding and fair values of Borrower Loans, Loans Held for Sale and Notes as of June 30, 2016 and December 31, 2015, are presented in the following table (in thousands):

	Borrower Loans		Notes		Loans Held for Sale	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Aggregate principal balance outstanding	\$ 312,725	\$ 296,945	\$ (315,671)	\$ (294,331)	\$ 4,715	\$ 42
Fair value adjustments	(2,691)	328	6,141	(3,074)	(10)	(10)
Fair value	<u>\$ 310,034</u>	<u>\$ 297,273</u>	<u>\$ (309,530)</u>	<u>\$ (297,405)</u>	<u>\$ 4,705</u>	<u>\$ 32</u>

At June 30, 2016, outstanding Borrower Loans had original terms to maturity of either 36 or 60 months; had monthly payments with fixed interest rates ranging from 5.32% to 33.04% and had various maturity dates through June 2021. At December 31, 2015, outstanding Borrower Loans had original maturities of either 36 or 60 months; had monthly payments with fixed interest rates ranging from 5.32% to 33.04% and had various maturity dates through December 2020.

Approximately \$314 thousand and \$2,033 thousand represents the gain and loss, respectively, that is attributable to changes in the instrument specific credit risks related to Borrower Loans that were recorded in the change in fair value during the three and six months ended June 30, 2016.

As of June 30, 2016, Borrower Loans that were 90 days or more delinquent had an aggregate principal amount of \$2.0 million and a fair value of \$0.7 million. As of December 31, 2015, Borrower Loans that were 90 days or more delinquent had an aggregate principal amount of \$2.3 million and a fair value of \$0.9 million. Prosper Funding places loans on non-accrual status when they are over 120 days past due. As of June 30, 2016 and December 31, 2015, Borrower Loans in non-accrual status had a fair value of \$0.2 million and \$0.1 million, respectively.

5. Loan Servicing Assets and Liabilities

Prosper Funding accounts for servicing assets and liabilities at their estimated fair values with changes in fair values recorded in servicing fees. The initial asset or liability is recognized when Prosper Funding sells Borrower Loans to unrelated third-party buyers through the Whole Loan Channel and the servicing rights are retained. The servicing assets and liabilities are measured at fair value throughout the servicing period. The total gains and losses recognized on the sale of such Borrower Loans was \$0.7 million of losses and \$3.7 million of gains for the three months ended June 30, 2016 and 2015, respectively. The total gain recognized on the sale of such Borrower Loans was \$3.1 million and \$5.6 million for the six months ended June 30, 2016 and 2015, respectively.

At June 30, 2016, Borrower Loans that were sold, but for which Prosper Funding retained servicing rights, had a total outstanding principal balance of \$3.9 billion, original terms of either 36 or 60 months and had monthly payments with fixed interest rates ranging from 5.32% to 35.52% and various maturity dates through June 2021. At December 31, 2015, Borrower Loans that were sold, but for which Prosper Funding retained servicing rights, had a total outstanding principal balance of \$3.6 billion, original terms of either 36 or 60 months and had monthly payments with fixed interest rates ranging from 5.32% to 31.90% and various maturity dates through December 2020.

\$10.3 million and \$4.1 million of contractually specified servicing fees and ancillary fees are included on our condensed consolidated statement of operations in Servicing Fees, Net for the three months ended June 30, 2016 and 2015 respectively. \$19.7 million and \$6.8 million of contractually specified servicing fees and ancillary fees are included on our condensed consolidated statement of operations in Servicing Fees, Net for the six months ended June 30, 2016 and 2015 respectively.

Fair value

Valuation method – Prosper Funding uses a discounted cash flow valuation methodology generally consisting of developing an estimate of future cash flows that are expected to occur over the life of a financial instrument and then discounting those cash flows at a rate of return that results in the fair value amount.

Significant unobservable inputs presented in the table within Note 7 below are those that Prosper Funding considers significant to the estimated fair values of the Level 3 servicing assets and liabilities. The following is a description of the significant unobservable inputs provided in the table.

Market servicing rate – Prosper Funding estimates adequate market servicing rates that would fairly compensate a substitute servicer should one be required, which includes the profit that would be demanded in the marketplace. This rate is stated as a fixed percentage of outstanding principal balance on a per annum basis. Prosper Funding estimated these market servicing rates based on observable market rates for other loan types in the industry and bids from subservicing providers, adjusted for the unique loan attributes that are present in the specific loans that Prosper Funding sells and services and information from a backup service provider.

Discount rate – The discount rate is a rate of return used to discount future expected cash flows to arrive at a present value, which represents the fair value of the loan servicing rights. We used a range of discount rates for the servicing assets and liabilities based on comparable observed valuations of similar assets and publicly available disclosures related to servicing valuations, with comparability adjustments made to account for differences with Prosper Funding’s servicing assets.

Default Rate – The default rate presented in Note 7 is an annualized, average estimate considering all Borrower Loan categories (i.e. risk ratings and duration), and represents an aggregate of conditional default rate curves for each credit grade or Borrower Loan category. Each point on a particular Borrower Loan category’s curve represents the percentage of principal expected to default per period based on the term and age of the underlying Borrower Loans. The assumption regarding defaults directly reduces servicing revenues because the amount of servicing revenues received is based on the amount collected each period.

Prepayment Rate – The prepayment rate presented in Note 7 is an annualized, average estimate considering all Borrower Loan categories (i.e. risk ratings and duration), and represents an aggregate of conditional prepayment rate curves for each credit grade or Borrower Loan category. Each point on a particular Borrower Loan category’s curve represents the percentage of principal expected to prepay per period based on the term and age of the underlying Borrower Loans. Prepayments reduce servicing revenues as they shorten the period over which we expect to collect fees on the Borrower Loans, which is used to project future servicing revenues.

6. Income Taxes

Prosper Funding incurred no income tax provision for the six months ended June 30, 2016 and 2015. Prosper Funding is a US disregarded entity and its income and loss is included in the return of its parent, PMI. Since PMI is in a loss position, is not currently subject to income taxes, and has fully reserved its deferred tax asset, the net effective tax rate for Prosper Funding is 0%.

7. Fair Value of Assets and Liabilities

Prosper Funding measures the fair value of assets and liabilities in accordance with its fair value hierarchy which prioritizes information used to measure fair value and the effect of fair value measurements on earnings and provides for enhanced disclosures determined by the level within the hierarchy of information used in the valuation. We apply this framework whenever other standards require (or permit) assets or liabilities to be measured at fair value.

Assets and liabilities carried at fair value on the balance sheets are classified among three levels based on the observability of the inputs used to determine fair value:

Level 1 — The valuation is based on quoted prices in active markets for identical instruments.

Level 2 — The valuation is based on observable inputs such as quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation methodologies for which all significant assumptions are observable in the market.

Level 3 — The valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the instrument. Level 3 valuations are typically performed using pricing models, discounted cash flow methodologies, or similar methodologies, which incorporate management’s own estimates of assumptions that market participants would use in pricing the instrument or valuations that require significant management judgment or estimation.

Fair values of assets or liabilities are determined based on the fair value hierarchy, which requires an entity to maximize the use of quoted prices and observable inputs and to minimize the use of unobservable inputs when measuring fair value. Various valuation methodologies are utilized, depending on the nature of the financial instrument, including the use of market prices for identical or similar instruments, or discounted cash flow models. When possible, active and observable market data for identical or similar financial instruments are utilized. Alternatively, fair value is determined using assumptions that management believes a market participant would use in pricing the asset or liability.

Financial instruments consist principally of cash and cash equivalents, restricted cash, Borrower Loans, accounts payable and accrued liabilities, and Notes. Servicing assets and liabilities are also subject to fair value measurement within the financial

statements of Prosper Funding. The estimated fair values of cash and cash equivalents, restricted cash, accounts payable and accrued liabilities approximate their carrying values because of their short term nature.

Financial Instruments Recorded at Fair Value

The fair value of the Borrower Loans, Loans Held for Sale and Notes are estimated using discounted cash flow methodologies based upon a set of valuation assumptions. The primary cash flow assumptions used to value such Borrower Loans, Loans Held for Sale and Notes include default rates derived from historical performance and discount rates applied to each credit grade based on the perceived credit risk of each credit grade.

Investments held at fair value consist of available for sale investments. The available for sale investments consist of corporate and government bonds. When available, Prosper Funding uses quoted prices in active markets to measure the fair value of securities available for sale. When utilizing market data and bid-ask spreads, Prosper Funding uses the price within the bid-ask spread that best represents fair value. When quoted prices do not exist, Prosper Funding uses prices obtained from independent third-party pricing services to measure the fair value of investment assets. Prosper Funding generally obtains prices from at least two independent pricing sources for assets recorded at fair value. Prosper Funding's primary independent pricing service provides prices based on observable trades and discounted cash flows that incorporate observable information, such as yields for similar types of securities (a benchmark interest rate plus observable spreads) and weighted-average maturity for the same or similar securities. Prosper Funding compares the prices obtained from its primary independent pricing service to the prices obtained from the additional independent pricing services to determine if the price obtained from the primary independent pricing service is reasonable. Prosper Funding does not adjust the prices received from independent third-party pricing services unless such prices are inconsistent with the definition of fair value and result in a material difference in the recorded amounts.

The following tables present the fair value hierarchy for assets and liabilities measured at fair value (in thousands):

June 30, 2016	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total</u>
Assets:				
Borrower Loans	\$ -	\$ -	\$ 310,034	\$ 310,034
Loans Held for Sale	-	-	4,705	4,705
Servicing Assets	-	-	13,798	13,798
Total Assets	<u>-</u>	<u>-</u>	<u>328,537</u>	<u>328,537</u>
Liabilities:				
Notes	\$ -	\$ -	\$ 309,530	\$ 309,530
Servicing Liabilities	-	-	324	324
Total Liabilities	<u>-</u>	<u>-</u>	<u>309,854</u>	<u>309,854</u>
December 31, 2015	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total</u>
Assets:				
Borrower Loans	\$ -	\$ -	\$ 297,273	\$ 297,273
Loans Held for Sale	-	-	32	32
Servicing Assets	-	-	13,605	13,605
Total Assets	<u>-</u>	<u>-</u>	<u>310,910</u>	<u>310,910</u>
Liabilities:				
Notes	\$ -	\$ -	\$ 297,405	\$ 297,405
Servicing Liabilities	-	-	484	484
Total Liabilities	<u>-</u>	<u>-</u>	<u>297,889</u>	<u>297,889</u>

As Prosper Funding's Borrower Loans, Loans Held for Sale, Notes and loan servicing rights do not trade in an active market with readily observable prices, Prosper Funding uses significant unobservable inputs to measure the fair value of these assets and liabilities. Financial instruments are categorized in the level 3 valuation hierarchy based on the significance of unobservable factors in the overall fair value measurement. These fair value estimates may also include observable, actively quoted components derived from external sources. As a result, the realized and unrealized gains and losses for assets and liabilities within the level 3 category may include changes in fair value that were attributable to both observable and unobservable inputs.

Significant Unobservable Inputs

The following tables present quantitative information about the significant unobservable inputs used for Prosper Funding's level 3 fair value measurements at June 30, 2016 and December 31, 2015:

Borrower Loans, Loans Held for Sale and Notes:

Unobservable Input	Range	
	June 30, 2016	December 31, 2015
Discount rate	4.4% - 15.0%	4.3% - 14.5%
Default rate	1.6% - 14.8%	1.4% - 14.4%

Servicing Rights

Unobservable Input	Range	
	June 30, 2016	December 31, 2015
Discount rate	15% - 25%	15% - 25%
Default rate	1.1% - 15.0%	1.2% - 14.7%
Prepayment rate	14.8% - 27.6%	14.3% - 25.6%
Market servicing rate	0.625%	0.625%

The changes in the Borrower Loans, Loans Held for Sale and Notes, which are Level 3 assets and liabilities measured at fair value on a recurring basis are as follows (in thousands):

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Borrower Loans		Loans Held for Sale		Total
	Borrower Loans	Notes	Sale		
Balance at January 1, 2016	\$ 297,273	\$ (297,405)	\$ 32		\$ (100)
Originations	109,215	(109,147)	1,358,011		1,358,079
Principal repayments	(82,376)	83,119	(136)		607
Borrower Loans sold to third parties	(1,138)	1,081	(1,353,202)		(1,353,259)
Other changes	(6)	(33)	-		(39)
Change in fair value	(12,934)	12,855	-		(79)
Balance at June 30, 2016	<u>\$ 310,034</u>	<u>\$ (309,530)</u>	<u>\$ 4,705</u>		<u>\$ 5,209</u>

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Borrower Loans		Loans Held for Sale		Total
	Borrower Loans	Notes	Sale		
Balance at January 1, 2015	\$ 273,243	\$ (273,783)	\$ 8,463		\$ 7,923
Originations	94,512	(94,575)	1,402,499		1,402,436
Principal repayments	(73,457)	73,509	(543)		(491)
Borrower Loans sold to third parties	-	-	(1,408,883)		(1,408,883)
Other changes	(130)	136	(9)		(3)
Change in fair value	(9,968)	10,085	(96)		21
Balance at June 30, 2015	<u>\$ 284,200</u>	<u>\$ (284,628)</u>	<u>\$ 1,431</u>		<u>\$ 1,003</u>

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Borrower Loans		Loans Held for Sale		Total
	Borrower Loans	Notes	Sale		
Balance at April 1, 2015	\$ 280,404	\$ (280,801)	\$ 1,599		\$ 1,202
Originations	46,805	(46,779)	861,574		861,600
Principal repayments	(37,395)	37,440	(157)		(112)
Borrower Loans sold to third parties	-	-	(861,574)		(861,574)
Other changes	(136)	(71)	(1)		(208)
Change in fair value	(5,478)	5,583	(10)		95
Balance at June 30, 2015	<u>\$ 284,200</u>	<u>\$ (284,628)</u>	<u>\$ 1,431</u>		<u>\$ 1,003</u>

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Borrower Loans	Notes	Loans Held for Sale	Total
Balance at April 1, 2016	\$ 303,243	\$ (302,357)	\$ 30	\$ 916
Purchase of Borrower Loans/Issuance of Notes	54,044	(53,873)	426,591	426,762
Principal repayments	(41,390)	41,057	(131)	(464)
Borrower Loans sold to third parties	(525)	499	(421,784)	(421,810)
Other changes	(2)	(191)	-	(193)
Change in fair value	(5,336)	5,335	(1)	(2)
Balance at June 30, 2016	<u>\$ 310,034</u>	<u>\$ (309,530)</u>	<u>\$ 4,705</u>	<u>\$ 5,209</u>

The following table presents additional information about Level 3 servicing assets and liabilities recorded at fair value for the three months ended June 30, 2016 (in thousands).

	Servicing Assets	Servicing Liabilities
Fair Value at January 1, 2016	13,605	484
Additions	5,750	9
Less: Changes in fair value	(5,557)	(169)
Fair Value at June 30, 2016	<u>13,798</u>	<u>324</u>

	Servicing Assets	Servicing Liabilities
Amortized Cost at January 1, 2015	3,116	624
Adjustment to Adopt Fair Value Measurement	399	(29)
Fair Value at January 1, 2015	3,515	595
Additions	5,837	193
Less: Transfers to PMI	(249)	-
Less: Changes in fair value	(1,469)	(182)
Fair Value at June 30, 2015	<u>7,634</u>	<u>606</u>

	Servicing Assets	Servicing Liabilities
Fair Value at April 1, 2016	14,929	398
Additions	1,729	-
Less: Changes in fair value	(2,860)	(74)
Fair Value at June 30, 2016	<u>13,798</u>	<u>324</u>

	Servicing Assets	Servicing Liabilities
Fair Value at April 1, 2015	4,782	668
Additions	3,759	39
Less: Transfers to PMI	-	-
Less: Changes in fair value	(907)	(101)
Fair Value at June 30, 2015	<u>7,634</u>	<u>606</u>

Significant Recurring Level 3 Fair Value Asset and Liability Input Sensitivity

Key economic assumptions and the sensitivity of the current fair value to immediate changes in those assumptions at June 30, 2016 for Borrower Loans, Loans Held for Sale and Notes funded are presented in the following table (in thousands):

	Borrower Loans and Loans Held for Sale	Notes
Discount rate assumption:	7.25 %*	7.25 %*
Resulting fair value from:		
100 basis point increase	\$ 306,868	\$ 306,363
200 basis point increase	303,781	303,277
Resulting fair value from:		
100 basis point decrease	\$ 313,283	\$ 312,780
200 basis point decrease	316,619	316,116
Default rate assumption:	11.02 %*	11.02 %*
Resulting fair value from:		
100 basis point increase	\$ 306,882	\$ 306,370
200 basis point increase	303,823	303,303
Resulting fair value from:		
100 basis point decrease	\$ 313,200	\$ 312,704
200 basis point decrease	316,399	315,913

* Represents weighted average assumptions considering all credit grades.

Servicing Asset and Liability Fair Value Input Sensitivity:

The following table presents the estimated impact on Prosper Funding's estimated fair value of servicing assets and liabilities, calculated using different market servicing rates and different default rates as of June 30, 2016 (in thousands, except percentages).

	Servicing Assets	Servicing Liabilities
Market servicing rate assumptions	0.625 %	0.625 %
Resulting fair value from:		
Market servicing rate increase to 0.65%	12,952	356
Market servicing rate decrease to 0.60%	14,995	291
Weighted average prepayment assumptions	20.44 %	20.44 %
Resulting fair value from:		
Applying a 1.1 multiplier to default rate	13,541	303
Applying a 0.9 multiplier to default rate	14,059	314
Weighted average default assumptions	11.39 %	11.39 %
Resulting fair value from:		
Applying a 1.1 multiplier to default rate	13,576	323
Applying a 0.9 multiplier to default rate	14,023	323

These sensitivities are hypothetical and should be evaluated with care. The effect on fair value of a 10% variation in assumptions generally cannot be determined because the relationship of the change in assumptions to the fair value may not be linear. Additionally, the impact of a variation in a particular assumption on the fair value is calculated while holding other assumptions constant. In reality, changes in one factor may lead to changes in other factors, which could impact the above hypothetical effects.

8. Commitments and Contingencies

Operating Commitments

Prosper Funding has an agreement with WebBank, under which Prosper Funding is required to pay WebBank the greater of a monthly minimum fee or a fee calculated based on a certain percentage of Borrower Loans purchased by Prosper Funding. The minimum fee for the remaining six months of 2016 is \$0.8 million. The minimum fee is \$1.7 million, \$1.7 million and \$1.0 million for years 2017, 2018 and 2019 respectively.

Loan Purchase Commitments

Under the terms of Prosper Funding's agreement with WebBank, Prosper Funding is committed to purchase \$7.8 million of Borrower Loans that WebBank originated during the last business day of the quarter ended June 30, 2016 and first business day of the quarter ended September 30, 2016. Prosper Funding will purchase these Borrower Loans within the first two business days of the quarter ended September 30, 2016.

Repurchase and Indemnification Contingency

Under the terms of the loan purchase agreements between Prosper Funding and investor members that participate in the Whole Loan Channel, Prosper Funding may, in certain circumstances, become obligated to repurchase a Borrower Loan from an investor member. Generally, these circumstances include the occurrence of verifiable identity theft, the failure to properly follow loan listing or bidding protocols, or a violation of the applicable federal, state, or local lending laws. The fair value of the indemnification and repurchase obligation is estimated based on historical experience. Prosper Funding recognizes a liability for the repurchase and indemnification obligation when the Borrower Loans are issued. Indemnified or repurchased Borrower Loans associated with violations of federal, state, or local lending laws or verifiable identity theft are written off at the time of repurchase or at the time an indemnification payment is made. The maximum potential amount of future payments associated under this obligation is the outstanding balances of the Borrower Loans issued through the Whole Loan Channel, which at June 30, 2016 is \$3,911 million. Prosper Funding had accrued \$439 thousand and \$460 thousand as of June 30, 2016 and December 31, 2015, respectively, in regard to this obligation.

9. Related Parties

Since inception, Prosper Funding has engaged in various transactions with its directors, executive officers and sole member, and immediate family members and other affiliates of its directors, executive officers and sole member. Prosper Funding believes that all of the transactions described below were made on terms no less favorable to Prosper Funding than could have been obtained from unaffiliated third parties.

Prosper Funding's executive officers and directors who are not executive officers participate in its marketplace by placing bids and purchasing Notes and Borrower Loans. The aggregate amount of the Notes and Borrower Loans purchased and the income earned by parties deemed to be related parties of Prosper Funding as of June 30, 2016 and December 31, 2015 are summarized below (in thousands):

Related Party	Aggregate Amount of Notes and Borrower Loans Purchased		Interest Earned on Notes and Borrower Loans	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Executive officers and management	\$ 801	\$ 846	\$ 110	\$ 98
Directors (excluding executive officers and management)	-	-	-	-
Total	\$ 801	\$ 846	\$ 110	\$ 98

Related Party	Aggregate Amount of Notes and Borrower Loans Purchased		Interest Earned on Notes and Borrower Loans	
	Three Months Ended June 30,		Three Months Ended June 30,	
	2016	2015	2016	2015
Executive officers and management	\$ 396	\$ 365	\$ 61	\$ 51
Directors (excluding executive officers and management)	-	-	-	-
Total	\$ 396	\$ 365	\$ 61	\$ 51

Related Party	Note and Borrower Loan Balance as of	
	December 31,	
	June 30, 2016	2015
Executive officers and management	\$ 1,822	\$ 1,912
Directors (excluding executive officers and management)	-	-
Total	\$ 1,822	\$ 1,912

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION PROSPER MARKETPLACE, INC.

This management's discussion and analysis of financial condition and results of operations, or MD&A, contains forward-looking statements that involve risks and uncertainties. Please see "Forward-Looking Statements" in Prosper's Annual Report on Form 10-K for a discussion of the uncertainties, risks and assumptions associated with these statements. This discussion should be read in conjunction with Prosper's historical condensed consolidated financial statements and related notes thereto and the other disclosures contained elsewhere in this Quarterly Report on Form 10-Q. The results of operations for the periods reflected herein are not necessarily indicative of results that may be expected for future periods, and Prosper's actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including but not limited to those included in the "Risk Factors" section and elsewhere in Prosper's Annual Report on Form 10-K.

Overview

Prosper is a pioneer of online marketplace lending that connects borrowers and investors. Our goal is to enable borrowers to access credit at affordable rates and provide investors with attractive risk-adjusted rates of return.

We believe our online marketplace model has key advantages relative to traditional bank lending, including (i) an innovative marketplace model that efficiently connects qualified supply and demand of capital, (ii) online operations that substantially reduce the need for physical infrastructure and improve convenience, and (iii) data and technology driven automation that increases efficiency, and improves the borrower and investor experience. We do not operate physical branches or incur expenses related to that infrastructure; instead, we use data and technology to drive automation and efficiency in our operation. As part of operating our marketplace, we verify the identity of borrowers and assess borrowers' credit risk profile using a combination of public and proprietary data. Our proprietary technology automates several loan origination and servicing functions, including the borrower application process, data gathering, credit scoring, loan funding, investing and servicing, regulatory compliance and fraud detection.

During the year ended December 31, 2015, our marketplace facilitated \$3.7 billion in Borrower Loan originations, of which \$3.5 billion were funded through our Whole Loan Channel, representing 95% of the total Borrower Loans originated through our marketplace during this period. In the three months ended June 30, 2016, our marketplace facilitated \$445 million in Borrower Loan originations, of which \$391 million were funded through our Whole Loan Channel, representing 88% of the total Borrower Loans originated through our marketplace during this period. In the six months ended June 30, 2016, our marketplace facilitated \$1.4 billion in Borrower Loan originations, of which \$1.3 billion were funded through our Whole Loan Channel, representing 92% of the total Borrower Loans originated through our marketplace during this period. From inception through June 30, 2016, our marketplace facilitated \$7.6 billion in Borrower Loan originations, of which \$6.5 billion were funded through our Whole Loan Channel, representing 85% of the total Borrower Loans originated through our marketplace during this period.

As a credit marketplace, we believe our customers are more highly susceptible to uncertainties and negative trends, real or perceived, in the markets driven by, among other factors, general economic conditions in the United States and abroad. These external economic conditions and resulting trends or uncertainties could adversely impact our customers' ability or desire to participate on our marketplace as borrowers or investors, and consequently could negatively affect our business and results of operations.

As discussed below, we saw reduced demand from investors who purchase Borrower Loans through the Whole Loan Channel during the second quarter of 2016. As a result, we experienced a decline in transaction fee revenue during this period and expect a decrease in transaction fee revenue in the third quarter of 2016 from the third quarter of 2015. Additionally, as described in note 14 of the financial statements, Prosper began a restructuring of its operations during the second quarter of 2016, which resulted in increased expenses during the quarter. We expect some additional non-recurring expenses to be incurred in the third quarter of 2016 as a result of the restructuring.

Results of Operations

Overview

The following table summarizes Prosper's net income (loss) for the three months ended June 30, 2016 and 2015 (in thousands):

	Three Months Ended			
	June 30,			
	2016	2015	\$ Change	% Change
Total Net Revenue	\$ 28,173	\$ 49,513	(21,340)	-43%
Total Expenses	63,696	55,538	8,158	15%
Net Loss Before Taxes	(35,523)	(6,025)	(29,498)	490%
Income Tax Expense	105	176	(71)	-40%
Net Loss	\$ (35,628)	\$ (6,201)	(29,427)	475%

Total net revenue for the three months ended June 30, 2016 decreased \$21.3 million, a 43% decrease from the three months ended June 30, 2015, primarily due to decreased Borrower Loan originations, which decreased 51%. See below for an explanation of the decrease in origination volume. Total expenses for the three months ended June 30, 2016 increased \$8.2 million, a 15% increase from the three months ended June 30, 2015, primarily due to restructuring costs of \$14.1 million (see further details below) and higher fixed costs as Prosper had anticipated higher originations through the marketplace during this period, this was offset by a reduction in sales and marketing expenses of \$14.3 million. Net loss for the three months ended June 30, 2016 increased \$29.4 million, primarily due to the decrease in our transaction fee revenue resulting from the decline in Borrower Loan originations during the period and increased expenses incurred in connection with the restructuring costs.

The following table summarizes Prosper's net income (loss) for the six months ended June 30, 2016 and 2015 (in thousands):

	Six Months Ended			
	June 30,			
	2016	2015	\$ Change	% Change
Total Net Revenue	\$ 84,689	\$ 81,233	3,456	4%
Total Expenses	137,511	94,461	43,050	46%
Net Loss Before Taxes	(52,822)	(13,228)	(39,594)	299%
Income Tax Expense	270	249	21	8%
Net Loss	\$ (53,092)	\$ (13,477)	(39,615)	294%

Total net revenue for the six months ended June 30, 2016 increased \$3.5 million, a 4% increase from the six months ended June 30, 2015, primarily due to increased servicing fee revenues which increased 141% due to a higher servicing base, this was offset by decreases in transaction fee revenues and gain on sale of borrower loans. Total expenses for the six months ended June 30, 2016 increased \$43.1 million, a 46% increase from the six months ended June 30, 2015, primarily due to higher compensation costs as Prosper added more staff to support its anticipated business growth, additional facilities related expenses incurred in connection with expansion into Utah, Delaware and Israel, and restructuring costs of \$14.1 million. Net loss for the six months ended June 30, 2016 increased \$39.6 million, primarily due to these increased expenses.

Origination Volume

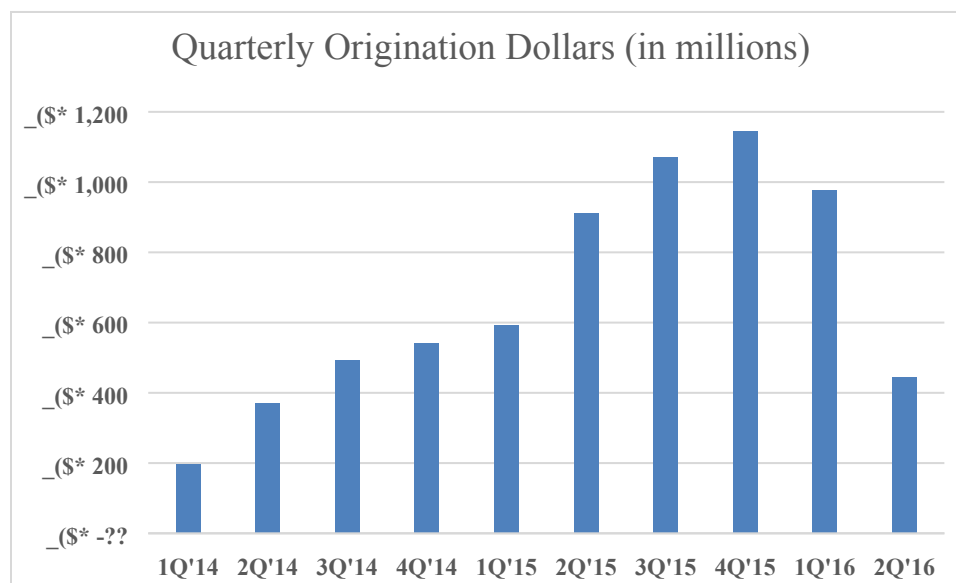
From inception through June 30, 2016, a total of 605,715 Borrower Loans, totaling \$7.6 billion, were originated through Prosper's marketplace.

During the second quarter ended June 30, 2016, 32,894 Borrower Loans totaling \$445 million were originated through Prosper's marketplace, compared to 67,038 Borrower Loans totaling \$912 million during the second quarter ended June 30, 2015. This represented a "unit" or loan, decrease of 51% and a dollar decrease of 51%.

The decreases above are the result of a number of our largest investors that have paused or significantly reduced their purchases of whole loans through Prosper's marketplace. We believe these investors have paused or reduced purchases because of an increase in the cost of capital for these investors, larger spreads for marketplace lending securitizations, recent negative actions and publicity at competitors and our limited use of investor rebates that have become more prevalent in the industry.

It is possible that these investors may not return to Prosper's marketplace or will not return to previous levels of purchases. If the investors continue to pause or reduce their purchases, Prosper will likely continue to see a significant reduction in Borrower Loans originated through its marketplace. Prosper is taking a number of actions to increase the amount of capital committed to make purchases on its marketplace. These actions include increasing the interest rates on loans offered through its marketplace, launching a new line of asset management products and improving the retail investor experience. We also may enter into strategic agreements with large institutional investors in order to increase the amount of capital available to purchase loans on the marketplace. There is no assurance that these actions will result in significant additional capital available on the marketplace.

The graph below presents aggregate dollar originations in (millions) through Prosper's marketplace dating back to the first quarter of 2014:



Revenue

The following table summarizes Prosper's revenue for the three months ended June 30, 2016 and 2015 (in thousands):

	Three Months Ended June 30,		\$ Change	% Change
	2016	2015		
Operating Revenues				
Transaction Fees, Net	\$ 19,276	\$ 39,800	(20,524)	-52%
Servicing Fees, Net	7,676	3,575	4,101	115%
Gain (Loss) on Sale of Borrower Loans	(687)	3,696	(4,383)	-119%
Other Revenues	816	1,630	(814)	-50%
Total Operating Revenues	<u>27,081</u>	<u>48,701</u>	<u>(21,620)</u>	<u>-44%</u>
Interest Income				
Interest Income on Borrower Loans	11,192	10,165	1,027	10%
Interest Expense on Notes	(10,098)	(9,448)	(650)	7%
Net Interest Income	<u>1,094</u>	<u>717</u>	<u>377</u>	<u>53%</u>
Change in Fair Value of Borrower Loans, Loans Held for Sale and Notes, Net	(2)	95	(97)	(102)%
Total Revenues	<u>28,173</u>	<u>49,513</u>	<u>(21,340)</u>	<u>(43)%</u>

The following table summarizes Prosper's revenue for the six months ended June 30, 2016 and 2015 (in thousands):

	Six Months Ended			
	June 30,			
	2016	2015	\$ Change	% Change
Operating Revenues				
Transaction Fees, Net	\$ 61,100	\$ 65,142	(4,042)	-6%
Servicing Fees, Net	14,819	6,144	8,675	141%
Gain on Sale of Borrower Loans	3,104	5,618	(2,514)	-45%
Other Revenues	3,589	2,685	904	34%
Total Operating Revenues	82,612	79,589	3,023	4%
Interest Income				
Interest Income on Borrower Loans	21,975	20,634	1,341	6%
Interest Expense on Notes	(19,819)	(19,011)	(808)	4%
Net Interest Income	2,156	1,623	533	33%
Change in Fair Value of Borrower Loans, Loans Held for Sale and Notes, Net	(79)	21	(100)	(476)%
Total Revenues	84,689	81,233	3,456	4%

Transaction Fees, Net

Prosper earns a transaction fee upon the successful origination of all Borrower Loans facilitated through Prosper's marketplace. Prosper receives payments from WebBank as compensation for the activities Prosper performs on behalf of WebBank. Prosper's fee is determined by the term and credit grade of the Borrower Loans that Prosper facilitates on its marketplace and WebBank originates. We record the transaction fee revenue net of any fees paid by us to WebBank.

Transaction fees decreased primarily due to lower origination volume through Prosper's marketplace during the three months ended June 30, 2016. The average transaction fee (gross of fees retained by WebBank) was 4.54% and 4.56% of the principal amount of originated loans facilitated through Prosper's marketplace for the three months ended June 30, 2016 and 2015, respectively.

Transaction fees decreased primarily due to lower origination volume through Prosper's marketplace during the six months ended June 30, 2016. The average transaction fee (gross of fees retained by WebBank) was 4.49% and 4.52% of the principal amount of originated loans facilitated through Prosper's marketplace for the six months ended June 30, 2016 and 2015, respectively.

Servicing Fees, Net

Prosper earns a fee from investors who purchase Borrower Loans through the Whole Loan Channel for servicing such loans on their behalf. The servicing fee compensates us for the costs we incur in servicing the Borrower Loan, including managing payments from borrowers and payments to investors and maintaining investors' account portfolios. The servicing fee is generally set at 1% per annum of the outstanding principal balance of the corresponding Borrower Loan prior to applying the current payment. The increase in servicing fees during the three and six months ended June 30, 2016 was due to the increase in Borrower Loans being serviced as a result of the increase in sales of Borrower Loans through the Whole Loan Channel in the past year.

Gain on Sale of Borrower Loans

Gain on Sale of Borrower Loans consists of net gains on Borrower Loans sold through the Whole Loan Channel. The decrease was due to a decrease in volume of such sales and \$2.4 million of rebates offered to certain whole loan purchasers during the three months ending June 30, 2016. The majority of these rebates were provided to a single whole loan purchaser. No such rebates were offered in the comparative periods.

Other Revenue

Other revenues consist primarily of credit referral fees, where partner companies pay us an agreed upon amount for referrals of customers from our website. The decrease in other revenue for the three months ended June 30, 2016 was primarily the result of decreased traffic to existing partners. As described below, Prosper decreased its sales and marketing efforts in the three months ending June 30, 2016 which resulted in less traffic to the marketplace and as a result less traffic to our existing partners. The increase in other revenue for the six months ended June 30, 2016 was primarily the result of non-recurring revenues of \$1.2 million that were earned in the period in relation to work performed for a BillGuard partner.

Interest Income on Borrower Loans and Interest Expense on Notes

Prosper recognizes interest income on Borrower Loans funded through the Note Channel using the accrual method based on the stated interest rate to the extent we believe it to be collectable. We record interest expense on the corresponding Notes based on the contractual interest rates. The interest rate charged on the Borrower Loans is generally 1% higher than the corresponding interest rate on the Note to compensate us for servicing the Borrower Loans.

Overall, the increase in net interest income for the periods above was primarily driven by the increase in volume of Borrower Loans funded through the Note Channel.

Change in Fair Value of Borrower Loans, Loans Held for Sale and Notes, net

The fair value of Borrower Loans, Loans Held for Sale and Notes are estimated using discounted cash flow methodologies based upon a set of valuation assumptions. The main assumptions used to value such Borrower Loans, Loans Held for Sale and Notes include default rates derived from historical performance, and discount rates. Loans held for sale are primarily comprised of Borrower Loans held for short durations and are valued using the same approach as the Borrower Loans held at fair value.

The following table summarizes the fair value adjustments for the three and six months ended June 30, 2016 and 2015, respectively (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Borrower Loans	\$ (5,336)	\$ (5,478)	\$ (12,934)	\$ (9,968)
Loans held for sale	(1)	(10)	-	(96)
Notes	5,335	5,583	12,855	10,085
Total	\$ (2)	\$ 95	\$ (79)	\$ 21

Expenses

The following table summarizes Prosper's expenses for the three months ended June 30, 2016 and 2015 (in thousands):

	Three Months Ended June 30,		\$ Change	% Change
	2016	2015		
Expenses				
Origination and Servicing	\$ 8,833	\$ 7,126	1,707	24%
Sales and Marketing	12,303	26,580	(14,277)	-54%
General and Administrative -Research and Development	7,615	3,323	4,292	129%
General and Administrative - Other	20,884	18,509	2,375	13%
Restructuring Charges	14,061	-	14,061	100%
Total Expenses	\$ 63,696	\$ 55,538	\$ 8,158	15%

The following table summarizes Prosper's expenses for the six months ended June 30, 2016 and 2015 (in thousands):

	Six Months Ended June 30,		\$ Change	% Change
	2016	2015		
Expenses				
Origination and Servicing	\$ 19,282	\$ 13,982	5,300	38%
Sales and Marketing	45,023	45,150	(127)	0%
General and Administrative -Research and Development	15,286	5,725	9,561	167%
General and Administrative - Other	43,859	29,604	14,255	48%
Restructuring Charges	14,061	-	14,061	100%
Total Expenses	\$ 137,511	\$ 94,461	\$ 43,050	46%

As of June 30, 2016, Prosper had 583 full-time employees compared to 450 full-time employees as of June 30, 2015; however, this includes 145 full-time employees who were notified that they would be terminated on July 5, 2016 as part of the restructuring plan. The following table reflects full-time employees as of June 30, 2016 and 2015 by department:

	June 30, 2016	June 30, 2015
Origination and Servicing	191	177
Sales and Marketing	112	88
General and Administrative - Research and Development	138	93
General and Administrative - Other	142	92
Total Headcount	583	450

Origination and Servicing

Origination and servicing costs consists primarily of salaries, benefits and stock-based compensation expense related to Prosper's credit, collections, customer support and payment processing employees and vendor costs associated with facilitating and servicing Borrower Loans. The increase was primarily due to an increase in personnel related expenses as Prosper expanded its verification and customer support teams to support the larger number of loans that were serviced and to support an anticipated future increase in loan application and processing volumes.

Sales and Marketing

Sales and Marketing costs consist primarily of affiliate marketing, search engine marketing, online and offline campaigns, email marketing, public relations, and direct mail marketing, as well as the compensation expenses such as wages, benefits and stock based compensation for the employees who support these activities. For the three months ended June 30, 2016, the decrease in expenses was largely due to decreased variable costs as Prosper slowed its marketing efforts to reduce demand from Borrowers and maintain marketplace equilibrium. These decreases included a \$3.2 million or 33% decrease in direct mailing costs as Prosper reduced the volume of its direct mail campaigns, a \$9.3 million or 93% decrease in partnership costs as Prosper significantly reduced partnership activities and negotiated lower rates with existing partners, and a \$1.0 million or 66% decrease in online marketing costs as Prosper significantly reduced its efforts in this area.

For the six months ended June 30, 2016, Prosper experienced a slight decrease in Sales and Marketing costs mainly due to a \$10.6 million or 62% decrease in partnership expenses as Prosper significantly reduced partnership activities and negotiated lower rates with existing partners. This decrease in partnership expenses was largely offset by an increase for the period in compensation and direct mailing expenses. For the six months ended June 30, 2016, there was a \$2.6 million or 55% increase in sales and marketing personnel related expenses as Prosper increased its headcount in this and other areas during the second half of 2015 to support anticipated future growth (the substantial decreases in such headcount did not occur until May 2016). Direct mailing costs increased \$7.1 million or 41% during the period as Prosper increased the volume of its direct mail campaigns in the first quarter of 2016 to increase the number of loan listings on the marketplace. Due to lengthy lead times for direct mail campaigns, Prosper was not able to lower the volume of its direct mail campaigns in response to lower than anticipated investor demand until the second quarter of 2016.

Research and Development

Research and development costs consist primarily of salaries, benefits and stock-based compensation expense related to engineering and product development employees and related vendor costs. The increase was primarily due to an increase in personnel related expenses as Prosper expanded its engineering and product development teams to support continued investment in its marketplace. The total increase is not as large as the total investment in research and development activities as a portion of these costs are capitalized as internal use software projects, which are amortized in origination and servicing. Prosper capitalized internal-use

software and website development costs in the amount of \$1.8 million and \$2.1 million for the three months ended June 30, 2016 and 2015, respectively. Prosper capitalized internal-use software and website development costs in the amount of \$3.6 million and \$3.9 million for the six months ended June 30, 2016 and 2015, respectively.

General and Administrative

General and administrative expenses consists primarily of salaries, benefits and stock-based compensation expense related to accounting and finance, legal, human resources and facilities employees, professional fees related to legal and accounting and facilities expense. The increase was primarily due to an increase in personnel related expenses as Prosper increased its headcount during the second half of 2015 to support anticipated future growth and increased facilities expenses as Prosper obtained additional space to support the increase in headcount.

Restructuring Charges

Restructuring costs consists of personnel and facilities related costs related to the strategic restructuring of the business that Prosper announced on May 3, 2016. This restructuring includes the termination of employees in Phoenix, Arizona and San Francisco, California locations; and the closing of our Salt Lake City, Utah location. Personnel costs include employee severance and benefits for the termination of 167 employees. Facilities charges include estimated losses on the sublease of properties in Phoenix, Salt Lake City and San Francisco.

Liquidity and Capital Resources

The following table summarizes Prosper's cash flow activities for the three months ended June 30, 2016 and 2015 (in thousands):

	Six Months Ended	
	June 30,	
	2016	2015
Net Loss	\$ (53,092)	\$ (13,477)
Net cash provided by (used in) operating activities	\$ (43,285)	\$ 4,931
Net cash used in investing activities	(19,382)	(49,197)
Net cash provided by financing activities	<u>25,196</u>	<u>167,012</u>
Net increase (decrease) in cash and cash equivalents	(37,471)	122,746
Cash and cash equivalents at the beginning of the period	<u>66,295</u>	<u>50,557</u>
Cash and cash equivalents at the end of the period	<u>\$ 28,824</u>	<u>\$ 173,303</u>

Net cash decreased for the six months ended June 30, 2016 primarily due to the \$53.1 million loss, \$5.0 million reduction in Accounts Payable and Accrued Liabilities, \$8.6 million for purchase of Property and Equipment, and a \$3 million scheduled payment to reduce our settlement liability. Net cash used in investing primarily represents acquisitions of Borrower Loans (excluding acquisition of Borrower Loans sold to unrelated third parties, which is included in cash flow from operations along with the corresponding proceeds from sale of Borrower Loans), offset by repayment of Borrower Loans and \$17.5M of available for sale securities that have been converted into cash. Net cash provided by financing activities primarily represents proceeds from the issuance of Notes, partially offset by payments on Notes. In the six month ended June 30, 2015 cash provided by financing activities consisted primarily of \$165 million raised through the issuance of New Series D preferred convertible shares, which was offset by \$27 million paid to repurchase common stock from certain employees.

In August 2015, we invested in securities classified as available for sale. The fair value of securities available for sale as of June 30, 2016 was \$55.7 million. At June 30, 2016, these securities include corporate debt securities, commercial paper, US treasury securities, agency bonds, and short-term bond funds. All securities were rated investment grade (defined as a rating equivalent to a Moody's rating of "Baa3" or higher, or a Standard & Poor's rating of "BBB-" or higher) and there were no significant unrealized losses. These securities provided \$0.1 million of interest income for the second quarter of 2016. These securities continue to be available to meet liquidity needs.

On July 1, 2016, Prosper and WebBank, an FDIC-insured, Utah-chartered industrial bank (“WebBank”), entered into (i) an Asset Sale Agreement between Prosper Funding and WebBank (the “Sale Agreement”), (ii) a Marketing Agreement between PMI and WebBank (the “Marketing Agreement”), and (iii) a Stand By Purchase Agreement between PMI and WebBank (the “Purchase Agreement,” and collectively, the “Origination and Sale Agreements”). As of the effective date of August 1, 2016 these agreements replace the existing agreements with WebBank. As a result of entering into these agreements, on August 1, 2016 Prosper deposited an additional \$5 million into a collateral account. This will reduce Cash and Cash equivalents while increase Restricted Cash. Additionally, under this agreement Prosper is required to maintain a minimum liquidity covenant of \$15 million.

Income Taxes

Prosper recognizes benefits from uncertain tax positions only if it believes that it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position.

Given Prosper’s history of operating losses, it is difficult to accurately forecast when and in what amounts future results will be affected by the realization, if any, of the tax benefits of future deductions for its net operating loss carry-forwards. Based on the weight of available evidence, which includes historical operating performance and the reported cumulative net losses in prior years, Prosper has recorded a full valuation allowance against its net deferred tax assets. The income tax expense relates to state income tax expense and the amortization of goodwill from the acquisition of PHL for tax purposes which gives rise to an indefinite-lived deferred tax liability.

Off-Balance Sheet Arrangements

As a result of retaining servicing rights on the sale of Borrower Loans, Prosper is a variable interest holder in certain special purposes entities that purchase these Borrower Loans. None of these special purpose entities are consolidated as Prosper is not the primary beneficiary.

Critical Accounting Policies

Certain of Prosper's accounting policies that involve a higher degree of judgment and complexity are discussed in *Part II - Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operation - Critical Accounting Estimates* in Prosper’s Annual Report on Form 10-K. There have been no significant changes to these critical accounting estimates during the first six months of 2016.

PROSPER FUNDING LLC

This management's discussion and analysis of financial condition and results of operations, or MD&A, contains forward-looking statements that involve risks and uncertainties. Please see "Forward-Looking Statements" in Prosper Funding's Annual Report on Form 10-K for a discussion of the uncertainties, risks and assumptions associated with these statements. This discussion should be read in conjunction with Prosper Funding's historical financial statements and related notes thereto and the other disclosures contained elsewhere in this Quarterly Report on Form 10-Q. The results of operations for the periods reflected herein are not necessarily indicative of results that may be expected for future periods, and Prosper Funding's actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including but not limited to those included in the "Risk Factors" section and elsewhere in Prosper Funding's Annual Report on Form 10-K.

Prosper Funding was formed in the state of Delaware on February 17, 2012 as a limited liability company with its sole equity member being PMI. Prosper Funding was formed by PMI to hold Borrower Loans originated through the Note Channel and issue related Notes. Although Prosper Funding is consolidated with PMI for accounting and tax purposes, Prosper Funding has been organized and is operated in a manner that is intended to minimize the likelihood that it would be substantively consolidated with PMI in a bankruptcy proceeding. Prosper Funding's intention is to minimize the likelihood that its assets would be subject to claims by PMI's creditors if PMI were to file for bankruptcy, as well as to minimize the likelihood that Prosper Funding will become subject to bankruptcy proceedings directly. Prosper Funding seeks to achieve this by placing certain restrictions on its activities and implementing certain formal procedures designed to expressly reinforce its status as a distinct corporate entity from PMI.

PFL formed PAH in November 2013 as a limited liability company with the sole equity member being PFL. PAH was formed to purchase certain Borrower Loans from PFL and, sell them to certain participants in the Whole Loan Channel.

As a credit marketplace, we believe our customers are more highly susceptible to uncertainties and negative trends, real or perceived, in the markets driven by, among other factors, general economic conditions in the United States and abroad. These external economic conditions and resulting trends or uncertainties could adversely impact our customers' ability or desire to participate on our marketplace as borrowers or investors, and consequently could negatively affect our business and results of operations.

As discussed below, Prosper Funding saw reduced listings on the marketplace as Prosper slowed down marketing efforts to reduce demand from Borrowers and maintain marketplace equilibrium. As a result, Prosper Funding experienced a decline in administration fee revenue-related party during this period and expects a decrease in administration fee revenue-related party in the third quarter of 2016 from the third quarter of 2015.

Results of Operations

Overview

The following table summarizes Prosper Funding's net income for the three months ended June 30, 2016 and 2015 (in thousands):

	Three Months Ended			
	June 30,		\$ Change	% Change
2016	2015			
Total Net Revenue	\$ 14,746	\$ 22,036	\$ (7,290)	-33%
Total Expenses	17,568	15,266	2,302	15%
Net Income	\$ (2,822)	\$ 6,770	\$ (9,592)	-142%

Total net revenue for the three months ended June 30, 2016 decreased \$7.3 million, a 33% decrease from the three months ended June 30, 2015, primarily due to the reduced number of loan listings on the marketplace during the quarter, which resulted in decreased loan administration fee revenue. Total expenses for the three months ended June 30, 2016 increased \$2.3 million, a 15% increase from the three months ended June 30, 2015, primarily due to higher corporate administration fees during the quarter.

The following table summarizes Prosper Funding's net income for the six months ended June 30, 2016 and 2015 (in thousands):

	Six Months Ended June 30,			
	2016	2015	\$ Change	% Change
Total Net Revenue	\$ 42,090	\$ 36,751	\$ 5,339	15%
Total Expenses	39,762	26,197	13,565	52%
Net Income	\$ 2,328	\$ 10,554	\$ (8,226)	-78%

Total net revenue for the six months ended June 30, 2016 increased \$5.3 million, a 15% increase from the six months ended June 30, 2015, primarily due to an increase in Borrower Loan originations in the past year, which resulted in increased servicing fee revenue for the six months ended June 30, 2016. Total expenses for the six months ended June 30, 2016 increased \$13.6 million, a 52% increase from the six months ended June 30, 2015, primarily due to higher corporate administration fees during the period.

Revenue

The following table summarizes Prosper Funding's revenue for the three months ended June 30, 2016 and 2015 (in thousands):

	Three Months Ended June 30,			
	2016	2015	\$ Change	% Change
Revenues				
Operating Revenues				
Administration Fee Revenue - Related Party	\$ 6,930	\$ 14,213	(7,283)	-51%
Servicing Fees, Net	7,589	3,272	4,317	132%
Gain (Loss) on Sale of Borrower Loans	(687)	3,696	(4,383)	-119%
Other Revenues	26	-	26	100%
Total Operating Revenues	13,858	21,181	(7,323)	-35%
Interest Income on Borrower Loans	10,988	10,209	779	8%
Interest Expense on Notes	(10,098)	(9,448)	(650)	7%
Net Interest Income	890	761	129	17%
Change in Fair Value on Borrower Loans, Loans Held for Sale and Notes, net	(2)	94	(96)	-102%
Total Revenue	\$ 14,746	\$ 22,036	(7,290)	-33%

The following table summarizes Prosper Funding's revenue for the six months ended June 30, 2016 and 2015 (in thousands):

	Six Months Ended June 30,			
	2016	2015	\$ Change	% Change
Revenues				
Operating Revenues				
Administration Fee Revenue - Related Party	\$ 22,348	\$ 23,886	(1,538)	-6%
Servicing Fees, Net	14,623	5,536	9,087	164%
Gain on Sale of Borrower Loans	3,104	5,618	(2,514)	-45%
Other Revenues	417	(22)	439	100%
Total Operating Revenues	40,492	35,018	5,474	16%
Interest Income on Borrower Loans	21,496	20,723	773	4%
Interest Expense on Notes	(19,819)	(19,011)	(808)	4%
Net Interest Income	1,677	1,712	(35)	-2%
Change in Fair Value on Borrower Loans, Loans Held for Sale and Notes, net	(79)	21	(100)	-476%
Total Revenue	\$ 42,090	\$ 36,751	5,339	15%

Administration Fee Revenue - Related Party

Prosper Funding primarily generates revenue through license fees it earns under its Administration Agreement with PMI. The Administration Agreement contains a license granted by Prosper Funding to PMI that entitles PMI to use the marketplace for and in

relation to: (i) PMI's performance of its duties and obligations under the Administration Agreement, and (ii) PMI's performance of its duties and obligations to WebBank under the Loan Account Program Agreement. The decreases in the administration fee revenue were the result of a reduction in the number of loan listings on the marketplace during 2016. The decrease in listings was the result of Prosper reducing marketing spending to reduce demand and maintain marketplace equilibrium.

Servicing Fee Revenue, Net

Prosper Funding earns a fee from investors who purchase Borrower Loans through the Whole Loan Channel for servicing such loans on their behalf. The servicing fee compensates Prosper Funding for the costs it incurs in servicing these Borrower Loans, including managing payments from borrowers, payments to investors and maintaining investors' account portfolios. The servicing fee is generally set at 1% per annum of the outstanding principal balance of the Borrower Loan prior to applying the current payment. The increase in servicing fees was due to the increase in Borrower Loans being serviced as a result of the increase in loan originations in the past year.

Gain on Sale of Borrower Loans

Gain on Sale of Borrower Loans consists of net gains on Borrower Loans sold through the Whole Loan Channel. The decrease was due to a decrease in volume of such sales and a rebate issued in the second quarter of 2016 to certain whole loan purchasers totaling \$2.4 million. The majority of the rebates were provided to a single whole loan purchaser.

Other Revenue

Other revenue consists primarily of fees earned from assisting whole loan purchasers with securitizations of their holdings. The increase is due to the fees earned by Prosper Funding from assisting whole loan purchasers with securitizations. No such fees were earned in the six months ended June 30, 2015.

Interest Income on Borrower Loans and Interest Expense on Notes

Prosper Funding recognizes interest income on Borrower Loans funded through the Note Channel using the accrual method based on the stated interest rate to the extent Prosper Funding believes it to be collectable. Prosper Funding records interest expense on the corresponding Notes based on the contractual interest rates. The interest rate charged on a Borrower Loan is generally 1% higher than the interest rate on the corresponding Notes to compensate Prosper Funding for servicing the Borrower Loan. This is recorded in interest income.

Overall, the increase in net interest income for the periods above was primarily driven by the increase in volume of Borrower Loans funded through the Note Channel.

Change in Fair Value of Borrower Loans, Loans Held for Sale and Notes, net

The fair value of Borrower Loans, Loans Held for Sale and Notes are estimated using discounted cash flow methodologies based upon a set of valuation assumptions. The main assumptions used to value such Borrower Loans, Loans Held for Sale and Notes include default rates derived from historical performance, and discount rates. Loans Held for Sale are primarily comprised of Borrower Loans held for short durations and are recorded using the same approach as the Borrower Loans held at fair value.

The following table summarizes the fair value adjustments for the three and six months ended June 30, 2016 and 2015, respectively (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Borrower Loans	\$ (5,336)	\$ (5,478)	\$ (12,934)	\$ (9,968)
Loans held for sale	\$ (1)	\$ (10)	\$ -	\$ (96)
Notes	\$ 5,335	\$ 5,583	\$ 12,855	\$ 10,085
Total	\$ (2)	\$ 95	\$ (79)	\$ 21

Expenses

The following table summarizes Prosper Funding's expenses for the three months ended June 30, 2016 and 2015 (in thousands):

Expenses	Three Months Ended June 30,		\$ Change	% Change
	2016	2015		
Administration Fee Expense – Related Party	\$ 15,652	\$ 14,085	1,567	11%
Servicing	1,536	899	637	71%
General and Administrative	380	282	98	35%
Total Expenses	\$ 17,568	\$ 15,266	2,302	15%

The following table summarizes Prosper Funding's expenses for the six months ended June 30, 2016 and 2015 (in thousands):

Expenses	Six Months Ended June 30,		\$ Change	% Change
	2016	2015		
Administration Fee Expense – Related Party	\$ 36,258	\$ 23,380	12,878	55%
Servicing	2,767	2,271	496	22%
General and Administrative	737	546	191	35%
Total Expenses	\$ 39,762	\$ 26,197	13,565	52%

Administration Fee Expense - Related Party

Pursuant to an Administration Agreement between Prosper Funding and PMI, PMI manages the marketplace on behalf of Prosper Funding. Accordingly, each month, Prosper Funding is required to pay PMI (a) an amount equal to one-twelfth (1/12) of the specified annual Corporate Administration Fee, which is equal to 50% of PMI's finance and legal personnel costs, (b) a fee for each Borrower Loan originated through the marketplace, (c) 90% of all servicing fees collected by or on behalf of Prosper Funding, and (d) all nonsufficient funds fees collected by or on behalf of Prosper Funding. In addition, under a second Administration Agreement between PMI and PAH, a wholly owned subsidiary of Prosper Funding, PAH is required to pay PMI an annual fee of \$0.2 million, payable on a monthly basis, for PMI being the administrator of PAH's operations. The increase in the administration fee expense was primarily due to a higher corporate administration fee and higher servicing fees which increased fees owed to PMI by Prosper Funding.

Servicing

Servicing costs consists primarily of vendor costs and depreciation of internal use software costs associated with servicing Borrower Loans. The increase was primarily due to an increase in depreciation costs and fraud losses.

General and Administrative

General and administrative costs consist primarily of bank service charges and professional fees. The increase was primarily due to an increase in outsourced collection fees resulting from enhancements Prosper Funding made to its collection process on delinquent loans that it services.

Liquidity and Capital Resources

The following table summarizes Prosper Funding's cash flow activities for the six months ended June 30, 2016 and 2015 (in thousands):

	Six Months Ended June 30,	
	2016	2015
Net Income	\$ 2,328	\$ 10,554
Net cash provided by operating activities	\$ (120)	\$ 24,072
Net cash used in investing activities	(32,942)	(30,348)
Net cash provided by financing activities	24,947	(5,933)
Net increase (decrease) in cash and cash equivalents	(8,115)	(12,209)
Cash and cash equivalents at the beginning of the period	15,026	23,777
Cash and cash equivalents at the end of the period	<u>\$ 6,911</u>	<u>\$ 11,568</u>

The net decrease in Cash for the six months ended June 30, 2016, primarily due to increased restricted cash of \$3.1 million and purchases of property and equipment of \$4.2 million. Net cash used in investing primarily represents acquisitions of Borrower Loans (excluding acquisition of Borrower Loans sold to unrelated third parties which is included in cash flow from operations along with the corresponding proceeds from sale of Borrower Loans), offset by repayment of Borrower Loans. Net cash provided by financing activities primarily represents proceeds from the issuance of Notes, partially offset by payments on Notes.

Income Taxes

Prosper Funding incurred no income tax expense for the three months ended June 30, 2016 and 2015. Prosper Funding is a US disregarded entity for income tax purposes and the income and loss is included in the return of its parent, PMI. Given PMI's history of operating losses and inability to achieve profitable operations, it is difficult to accurately forecast how Prosper's and Prosper Funding's results will be affected by the realization and use of net operating loss carry forwards.

Off-Balance Sheet Arrangements

As a result of retaining servicing rights on the sale of Borrower Loans, Prosper Funding is a variable interest holder in certain special purposes entities that purchase these Borrower Loans. None of these special interest entities are consolidated as Prosper Funding is not the primary beneficiary. Otherwise as of June 30, 2016, Prosper Funding has not engaged in any off-balance sheet financing activities.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Prosper Marketplace, Inc.

Market risk is the risk of loss to future earnings, values or future cash flows that may result from changes in financial market prices and interest rates.

Because balances, interest rates and maturities of Borrower Loans are matched and offset by an equal balance of Notes with the exact same interest rates (net our servicing fee) and initial maturities, we believe that we do not have any material exposure to changes in the net fair value of the combined Borrower Loan and Note portfolios as a result of changes in interest rates. We do not hold or issue financial instruments for trading purposes.

The fair values of Borrower Loans, Loans Held for Sale and the related Notes are determined using discounted cash flow methodologies based upon a set of valuation assumptions. The fair value adjustments for Borrower Loans are largely offset by the fair value adjustments of the Notes due to the borrower payment dependent design of the Notes and due to the total principal balances of the Borrower Loans being very close to the total principal balances of the Notes.

Prosper had cash and cash equivalents of \$28.8 million as of June 30, 2016, and \$66.3 million as of December 31, 2015. These amounts were held in various unrestricted deposits with highly rated financial institutions and short-term, highly liquid marketable securities consisting primarily of money market funds, commercial paper, U.S. treasury securities and U.S. agency securities. Cash and cash equivalents are held for working capital purposes. Due to their short-term nature, Prosper believes that it does not have any material exposure to changes in the fair value of these liquid investments as a result of changes in interest rates. Decreases in short-term interest rates will not materially reduce interest income on these cash and cash equivalents because of the

current low rate environment. Increases in short-term interest rates will moderately increase the interest income earned on these cash balances.

Interest Rate Sensitivity

Prosper holds available for sale investments. The fair value of Prosper's available for sale investment portfolio was \$55.7 million and \$73.2 million as of June 30, 2016 and December 31, 2015, respectively. These investments consisted of corporate debt securities, commercial paper, U.S. agency bonds, U.S. Treasury securities and short term bonds. To mitigate the risk of loss, Prosper's investment policy and strategy is focused first on the preservation of capital and supporting our liquidity requirements, and then maximizing returns. To manage this risk, Prosper limits and monitors maturities, credit ratings, and concentrations within the investment portfolio. Changes in U.S. interest rates affect the interest earned on Prosper's available for sale investments and the market value of those investments. A hypothetical 100 basis point increase in interest rates would result in a decrease of approximately \$0.4 million in the fair value of Prosper's available for sale investments as of June 30, 2016, and of approximately \$0.6 million in the fair value of Prosper's available for sale investments as of December 31, 2015. A hypothetical 100 basis point decrease in interest rates would result in an increase of approximately \$0.3 million in the fair value of Prosper's available for sale investments as of June 30, 2016, and of approximately \$0.6 million in the fair value of Prosper's available for sale investments as of December 31, 2015. Any realized gains or losses resulting from such interest rate changes would only be recorded if Prosper sold the investments prior to maturity and the investments were not considered other-than-temporarily impaired.

Prosper Funding LLC

As a smaller reporting company, Prosper Funding is not required to provide the information required under this Item 3.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Registrants' disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are designed to provide reasonable assurance that the information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in rules and forms adopted by the SEC, and that such information is accumulated and communicated to management, including to each of the Registrant's Principal Executive Officer (PEO) and the Principal Financial Officer (PFO), to allow timely decisions regarding required disclosures. The management of each Registrant, with the participation of such Registrant's PEO and PFO, has evaluated the effectiveness of such Registrant's disclosure controls and procedures as of June 30, 2016. Based on this evaluation, each Registrant's PEO and PFO have concluded that these disclosure controls and procedures were effective as of June 30, 2016.

Changes in Internal Control Over Financial Reporting

There were no changes in either Registrant's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during the three months ended June 30, 2016, that have materially affected, or are reasonably likely to materially affect, either Registrant's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Neither PFL nor its subsidiary is currently subject to any material legal proceedings. PFL is not aware of any litigation matters which have had, or are expected to have, a material adverse effect on it or its subsidiary.

Neither PMI nor any of its subsidiaries is currently subject to any material legal proceedings. Except for the matters referenced in Note 13 (“Commitments and Contingencies”) of PMI’s Notes to Condensed Consolidated Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q, which information is incorporated into this Item by reference, PMI is not aware of any litigation matters that have had, or are expected to have, a material adverse effect on it or any of its subsidiaries.

This Item should be read in conjunction with the Legal Proceedings disclosures in the Registrants’ Annual Report on Form 10-K for the year ended December 31, 2015 (Part I, Item 3).

Item 1A. Risk Factors

You should carefully consider the information in this Quarterly Report on Form 10-Q and the condensed consolidated financial statements and related notes, and "Part I - Item 1A - Risk Factors" in our Annual Report on Form 10-K when evaluating our business.

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

None.

Information for this Item is not required for Prosper Funding because it meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and Prosper Funding is therefore filing this Form with the reduced disclosure format.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The exhibits listed on the accompanying Exhibit Index are filed or incorporated by reference as a part of this report and such Exhibit Index is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements 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.

PROSPER MARKETPLACE, INC.
PROSPER FUNDING LLC

Date: August 15, 2016

/s/ Aaron Vermut

Aaron Vermut
Chief Executive Officer of Prosper Marketplace, Inc.
Chief Executive Officer of Prosper Funding LLC
(Principal Executive Officer)

Date: August 15, 2016

/s/ David Kimball

David Kimball
Chief Financial Officer of Prosper Marketplace, Inc.
Treasurer of Prosper Funding LLC
(Principal Financial Officer and Principal Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Exhibit Description
3.1	Fifth Amended and Restated Limited Liability Company Agreement of PFL, dated October 21, 2013 (incorporated by reference to Exhibit 3.1 of the Post-Effective Amendment No. 3 to the Registration Statement on Form S-1, filed October 23, 2013 by PFL and PMI)
3.2	Amended and Restated Certificate of Incorporation of PMI, as further amended on May 31, 2016
3.3	PFL Certificate of Formation (incorporated by reference to Exhibit 3.2 of the Registration Statement on Form S-1/A, filed April 23, 2012 by PFL and PMI)
3.4	Bylaws of PMI, as amended by an Amendment No. 1 dated February 15, 2016
4.1	Form of PFL Borrower Payment Dependent Note (included as Exhibit A in Exhibit 4.5)
4.2	Form of PMI Borrower Payment Dependent Note (included as Exhibit A in Exhibit 4.4)
4.3	Supplemental Indenture, dated January 22, 2013, between PMI, PFL and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.1 of PMI and PFL's Current Report on Form 8-K, filed on January 28, 2013)
4.4	Indenture, dated June 15, 2009, between PMI and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.2 of Pre-Effective Amendment No. 5 to PMI's Registration Statement on Form S-1 (File No. 333-147019), filed June 26, 2009)
4.5	Amended and Restated Indenture, dated January 22, 2013, between PFL and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.2 of PMI and PFL's Current Report on Form 8-K filed on January 28, 2013)
10.1	Form of PFL Borrower Registration Agreement
10.2	Form of PFL Investor Registration Agreement
10.3	Amendment No. 2 to Prosper Marketplace, Inc. 2015 Equity Incentive Plan
10.4	Asset Sale Agreement, dated July 1, 2016, between PFL and WebBank (incorporated by reference to Exhibit 10.1 of PMI and PFL's Current Report on Form 8-K filed on July 8, 2016)
10.5	Marketing Agreement, dated July 1, 2016, between PMI and WebBank (incorporated by reference to Exhibit 10.2 of PMI and PFL's Current Report on Form 8-K filed on July 8, 2016)
10.6	Stand By Purchase Agreement, dated July 1, 2016, between PMI and WebBank (incorporated by reference to Exhibit 10.3 of PMI and PFL's Current Report on Form 8-K filed on July 8, 2016)
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to PMI's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to PMI's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016.
31.3	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to PFL's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016.
31.4	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to PFL's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016.
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, with respect to PMI's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016.
32.2	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, with respect to PFL's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016.
101.INS	XBRL Instance Documents
101.SCH	XBRL Taxonomy Extension Schema Document

- 101.CAL Taxonomy Extension Calculation Linkbase Document
- 101.LAB Taxonomy Extension Label Linkbase Document
- 101.PRE Taxonomy Extension Presentation Linkbase Document
- 101.DEF Taxonomy Extension Definition Linkbase Document