

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

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**FORM 10-Q**

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(Mark One)

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

**For the quarterly period ended June 30, 2016**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 001-37622**

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**Square, Inc.**

(Exact name of registrant as specified in its charter)

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**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**80-0429876**

(IRS Employer  
Identification No.)

**1455 Market Street, Suite 600**

**San Francisco, CA 94103**

(Address of principal executive offices, including zip code)

**(415) 375-3176**

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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  (Do not check if smaller reporting company) Smaller reporting company

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

As of July 26, 2016, the number of shares of the registrant's Class A common stock outstanding was 123,747,963 and the number of shares of the registrant's Class B common stock outstanding was 218,016,908.

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## **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as “may,” “will,” “appears,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “potential,” or “continue,” or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans, or intentions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about our future financial performance, our anticipated growth and growth strategies and our ability to effectively manage that growth, our anticipated expansion in international markets, our plans for funding and expanding Square Capital, our expectations regarding litigation, and the sufficiency of our cash and cash equivalents and cash generated from operations to meet our working capital and capital expenditure requirements.

The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, and other factors described in the section titled “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q.

We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law.

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Part I—Financial Information

Item 1. Financial Statements

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

	June 30, 2016	December 31, 2015
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 342,436	\$ 470,775
Short-term investments	60,991	—
Restricted cash	13,545	13,537
Settlements receivable	204,541	142,727
Loans held for sale	29,774	604
Merchant cash advance receivable, net	21,268	36,473
Other current assets	48,473	41,447
<b>Total current assets</b>	<b>721,028</b>	<b>705,563</b>
Property and equipment, net	86,325	87,222
Goodwill	56,699	56,699
Acquired intangible assets, net	22,329	26,776
Long-term investments	19,602	—
Restricted cash	23,131	14,686
Other assets	4,178	3,826
<b>Total assets</b>	<b>\$ 933,292</b>	<b>\$ 894,772</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 16,211	\$ 18,869
Customers payable	310,242	224,811
Accrued transaction losses	16,093	17,176
Accrued expenses	26,133	44,401
Other current liabilities	42,790	28,945
<b>Total current liabilities</b>	<b>411,469</b>	<b>334,202</b>
Other liabilities	50,364	52,522
<b>Total liabilities</b>	<b>461,833</b>	<b>386,724</b>
Commitments and contingencies (Note 17)		
<b>Stockholders' equity:</b>		
Preferred stock, \$0.0000001 par value: 100,000,000 shares authorized at June 30, 2016, and December 31, 2015. None issued and outstanding at June 30, 2016, and December 31, 2015.	—	—
Common stock, \$0.0000001 par value: 1,000,000,000 Class A shares authorized at both June 30, 2016, and December 31, 2015; 118,365,688 and 31,717,133 issued and outstanding at June 30, 2016, and December 31, 2015, respectively. 500,000,000 Class B shares authorized at both June 30, 2016, and December 31, 2015; 222,597,682 and 303,232,312 issued and outstanding at June 30, 2016, and December 31, 2015, respectively.	—	—
Additional paid-in capital	1,203,136	1,116,882
Accumulated deficit	(731,749)	(607,649)
Accumulated other comprehensive income (loss)	72	(1,185)
<b>Total stockholders' equity</b>	<b>471,459</b>	<b>508,048</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 933,292</b>	<b>\$ 894,772</b>

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
<b>Revenue:</b>				
Transaction revenue	\$ 364,864	\$ 259,864	\$ 665,317	\$ 470,974
Starbucks transaction revenue	32,867	33,630	71,705	62,867
Software and data product revenue	29,717	12,928	53,513	20,934
Hardware revenue	11,085	3,591	27,267	5,795
Total net revenue	<u>438,533</u>	<u>310,013</u>	<u>817,802</u>	<u>560,570</u>
<b>Cost of revenue:</b>				
Transaction costs	234,857	165,823	429,133	297,930
Starbucks transaction costs	28,672	40,921	65,282	77,132
Software and data product costs	10,144	5,072	19,177	8,227
Hardware costs	14,015	6,713	40,755	10,910
Amortization of acquired technology	1,886	1,142	4,256	1,744
Total cost of revenue	<u>289,574</u>	<u>219,671</u>	<u>558,603</u>	<u>395,943</u>
Gross profit	<u>148,959</u>	<u>90,342</u>	<u>259,199</u>	<u>164,627</u>
<b>Operating expenses:</b>				
Product development	68,638	45,887	133,230	85,432
Sales and marketing	39,220	31,730	77,716	67,911
General and administrative	50,784	31,804	146,891	59,923
Transaction, loan and advance losses	17,455	8,513	25,316	24,835
Amortization of acquired customer assets	222	482	539	950
Total operating expenses	<u>176,319</u>	<u>118,416</u>	<u>383,692</u>	<u>239,051</u>
Operating loss	<u>(27,360)</u>	<u>(28,074)</u>	<u>(124,493)</u>	<u>(74,424)</u>
Interest (income) and expense, net	(129)	444	(60)	858
Other (income) and expense, net	(198)	(50)	(984)	746
Loss before income tax	<u>(27,033)</u>	<u>(28,468)</u>	<u>(123,449)</u>	<u>(76,028)</u>
Provision for income taxes	312	1,152	651	1,570
Net loss	<u>\$ (27,345)</u>	<u>\$ (29,620)</u>	<u>\$ (124,100)</u>	<u>\$ (77,598)</u>
<b>Net loss per share:</b>				
Basic	<u>\$ (0.08)</u>	<u>\$ (0.20)</u>	<u>\$ (0.37)</u>	<u>\$ (0.53)</u>
Diluted	<u>\$ (0.08)</u>	<u>\$ (0.20)</u>	<u>\$ (0.37)</u>	<u>\$ (0.53)</u>
<b>Weighted-average shares used to compute net loss per share</b>				
Basic	<u>334,488</u>	<u>149,253</u>	<u>332,906</u>	<u>147,288</u>
Diluted	<u>334,488</u>	<u>149,253</u>	<u>332,906</u>	<u>147,288</u>

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

**SQUARE, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
*(Unaudited)*  
*(In thousands)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net loss	\$ (27,345)	\$ (29,620)	\$ (124,100)	\$ (77,598)
Net foreign currency translation adjustments	85	(30)	595	(257)
Net unrealized gain (loss) on revaluation of intercompany loans	329	(95)	\$ 582	\$ (95)
Net unrealized gain (loss) on marketable securities	4	—	\$ 80	\$ —
<b>Total comprehensive loss</b>	<b>\$ (26,927)</b>	<b>\$ (29,745)</b>	<b>\$ (122,843)</b>	<b>\$ (77,950)</b>

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

**SQUARE, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)  
(In thousands)

	<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (124,100)	\$ (77,598)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	18,136	11,956
Share-based compensation	68,120	28,693
Provision for transaction losses	23,392	21,566
Provision for (reduction in) uncollectible merchant cash advances	(93)	3,148
Deferred provision for income taxes	63	(207)
Loss on disposal of property and equipment	131	240
Changes in operating assets and liabilities:		
Settlements receivable	(62,169)	(56,326)
Purchase of loans held for sale	(212,727)	—
Proceeds from sales and principal payments of loans held for sale	183,748	—
Merchant cash advance receivable	15,298	(6,145)
Other current assets	(7,313)	(4,735)
Other assets	(377)	1,177
Accounts payable	2,538	3,408
Customers payable	84,826	67,286
Charge-offs and recoveries to accrued transaction losses	(24,475)	(14,174)
Accrued expenses	(13,784)	3,834
Other current liabilities	13,446	(10)
Other noncurrent liabilities	(431)	7,388
Net cash used in operating activities	<u>(35,771)</u>	<u>(10,499)</u>
<b>Cash flows from investing activities:</b>		
Purchase of marketable securities	(102,245)	—
Proceeds from maturities of marketable securities	16,768	—
Proceeds from sale of marketable securities	4,964	—
Purchase of property and equipment	(15,840)	(20,760)
Payment for acquisition of intangible assets	(400)	(110)
Change in restricted cash	(8,453)	—
Business acquisitions (net of cash acquired)	—	(3,750)
Net cash used in investing activities	<u>(105,206)</u>	<u>(24,620)</u>
<b>Cash flows from financing activities:</b>		
Payments of offering costs related to initial public offering	(5,530)	—
Proceeds from issuances of common stock from the exercise of options and employee stock purchase plan	15,496	8,633
Net cash provided by financing activities	<u>9,966</u>	<u>8,633</u>
Effect of foreign exchange rate changes on cash and cash equivalents	2,672	(874)
Net decrease in cash and cash equivalents	<u>(128,339)</u>	<u>(27,360)</u>
Cash and cash equivalents, beginning of period	470,775	225,300
Cash and cash equivalents, end of period	<u>\$ 342,436</u>	<u>\$ 197,940</u>

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

**SQUARE, INC.**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
( *Unaudited* )

**NOTE 1 - DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Business***

Square, Inc. (together with its subsidiaries, Square or the Company) creates tools that help sellers of all sizes start, run, and grow their businesses – from payment processing to point of sale, hardware to software, business loans to payroll and more. Businesses and individuals can also use Square Cash, an easy way to send and receive money, as well as Caviar, a food delivery service for popular restaurants. Square was founded in 2009 and is headquartered in San Francisco, with offices in the United States, Canada, Japan, and Australia.

***Initial Public Offering***

In November 2015, the Company completed its Initial Public Offering (IPO) in which it issued and sold 29,700,000 shares of Class A common stock at a public offering price of \$9.00 per share and a selling stockholder sold 1,350,000 shares of Class A common stock. The Company did not receive any proceeds from the sale of shares by the selling stockholder. The total net proceeds received by the Company from the IPO were \$245.7 million after deducting underwriting discounts and commissions of \$14.7 million and other offering expenses of approximately \$6.9 million.

***Out of Period Adjustments***

During the three months ended June 30, 2016, the Company recorded an out of period adjustment for the amount of \$6.0 million to transaction, loan and advance losses as a result of a correction to the calculation of its reserve for transaction losses. The adjustment was recorded to correct an understatement of transaction losses in prior periods. Of the total amount of this adjustment, \$0.5 million is related to the three months ended March 31, 2016, and \$2.6 million, \$1.6 million and \$1.0 million is related to the years ended December 31, 2015, 2014, and 2013, respectively. The remaining \$0.3 million is related to historical periods. The Company does not believe that such amounts are material with respect to the estimated operating loss or estimated net loss for the current fiscal year or any previously reported consolidated financial statements.

***Basis of Presentation***

The accompanying interim condensed consolidated financial statements of the Company are unaudited. These interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP) and the applicable rules and regulations of the Securities and Exchange Commission (SEC) for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The December 31, 2015 condensed consolidated balance sheet was derived from the audited financial statements as of that date, but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

The accompanying unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, reflect all adjustments of a normal recurring nature considered necessary to state fairly the Company's financial position, results of operations, comprehensive loss, and cash flows for the interim periods. All intercompany transactions and balances have been eliminated in consolidation. The interim results for the three and six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016, or for any other future annual or interim period.

The information included in this Quarterly Report on Form 10-Q should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Quantitative and Qualitative Disclosures About Market Risk," and the Consolidated Financial Statements and notes thereto included in Items 7, 7A, and 8, respectively, in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

### ***Use of Estimates***

The preparation of the Company's consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses, as well as related disclosure of contingent assets and liabilities. Actual results could differ from the Company's estimates. To the extent that there are material differences between these estimates and actual results, the Company's financial condition or operating results will be materially affected. The Company bases its estimates on past experience and other assumptions that the Company believes are reasonable under the circumstances, and the Company evaluates these estimates on an ongoing basis.

Significant estimates, judgments, and assumptions in these consolidated financial statements include, but are not limited to, those related to revenue recognition, accrued transaction losses, provision for uncollectible receivables related to merchant cash advances (MCAs), valuation of loans held for sale, business combinations, goodwill and intangible assets, income taxes, and share-based compensation.

### ***Concentration of Credit Risk***

For the three and six months ended June 30, 2016, the Company had no customer that accounted for greater than 10% of total net revenue. For the three and six months ended June 30, 2015, the Company had no customer other than Starbucks that accounted for greater than 10% of total net revenue. The Company had three third-party processors that represented approximately 50%, 34%, and 12% of settlements receivable as of June 30, 2016. The same three parties represented approximately 56%, 23%, and 16% of settlements receivable as of December 31, 2015.

The Company places its cash and cash equivalents and investments in marketable securities with large, creditworthy financial institutions. Balances in these accounts may exceed federally insured limits at times.

### ***Significant Accounting Policies***

Except as described below, there have been no material changes to the Company's significant accounting policies during the six months ended June 30, 2016, as compared to the significant accounting policies described in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

### ***Loans Held for Sale***

The Company provides loans to sellers prequalified through an analysis of the aggregated data of the seller's business which includes, but is not limited to, the seller's historical processing volumes, transaction count, chargebacks, growth, and length of time as a Square customer. The loans are originated by a bank, from whom the Company purchases the loans obtaining all rights, title, and interest.

The loans are classified as held for sale upon purchase, as it is the Company's intent to sell all of its rights, title, and interest in these loans to third-party investors for an up-front origination fee when the loans are sold. The Company also earns a servicing fee by continuing to service the loans by remitting monies to the third-party investors. Revenue from origination fees are recognized upon transfer of title to investors and servicing revenue is recognized as servicing is delivered.

A loan that is initially designated as held for sale may be reclassified to held for investment if and when the Company's intent for that loan changes. There have been no reclassifications made to date. Loans are recorded at the lower of cost or fair value. To determine the fair value of loans, the Company utilizes industry standard modeling, such as discounted cash flow models, to arrive at an estimate of fair value.

### ***Recently Issued Accounting Standards***

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, and issued subsequent amendments to the initial guidance within ASU 2015-04, ASU 2016-08, ASU 2016-10, and ASU 2016-12. The new guidance will replace all current U.S. GAAP guidance on this topic and eliminate all industry specific guidance. The core principal of this new guidance is that revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration for which the Company expects to be entitled in exchange for those goods or services. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. The guidance can be applied either retrospectively to each period presented or as a cumulative effect adjustment as of the date of

adoption. The Company 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 March 2016, the FASB issued ASU No. 2016-04, *Recognition of Breakage for Certain Prepaid Stored-Value Products*. This guidance specifies how prepaid stored-value product liabilities should be derecognized, thereby eliminating the current and potential future diversity in practice. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact this new guidance may have on the consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact this new guidance may have on the consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, which requires measurement and recognition of expected credit losses for financial assets held. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact this new guidance may have on the consolidated financial statements.

## **NOTE 2 - RESTRICTED CASH**

As of both June 30, 2016 and December 31, 2015, restricted cash of \$13.5 million is related to pledged cash deposited into savings accounts at the financial institutions that process the Company's sellers' payment transactions. The Company uses the restricted cash to secure letters of credit with the financial institutions to provide collateral for cash flow timing differences in the processing of these payments. The Company has recorded this amount as a current asset on the condensed consolidated balance sheets due to the short-term nature of these cash flow timing differences and that there is no minimum time frame during which the cash must remain restricted.

As of June 30, 2016 and December 31, 2015, the remaining restricted cash of \$23.1 million and \$14.7 million, respectively, is primarily related to cash deposited into money market funds that is used as collateral pursuant to multi-year lease agreements entered into in 2012 and 2014 (see note 17) and as collateral pursuant to an agreement with the originating bank for the Company's loan product. The Company has recorded this amount as a non-current asset on the condensed consolidated balance sheets as the terms extend beyond one year.

## **NOTE 3 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company measures its cash equivalents and short-term and long-term investments at fair value. The Company classifies its cash equivalents and short-term and long-term investments within Level 1 or Level 2 of the fair value hierarchy because the Company values these investments using quoted market prices or alternative pricing sources and models utilizing market observable inputs.

The Company's financial assets and liabilities that are measured at fair value on a recurring basis are classified as follows (in thousands):

	June 30, 2016			December 31, 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Cash and Cash Equivalents:</b>						
Money market funds	\$ 156,001	\$ —	\$ —	\$ 337,234	\$ —	\$ —
Commercial paper	—	10,745	—	—	—	—
Municipal securities	—	250	—	—	—	—
<b>Short-term securities:</b>						
U.S. agency securities	—	11,617	—	—	—	—
Corporate bonds	—	8,805	—	—	—	—
Commercial paper	—	22,465	—	—	—	—
Municipal securities	—	3,005	—	—	—	—
U.S. government securities	15,099	—	—	—	—	—
<b>Long-term securities:</b>						
U.S. agency securities	—	7,024	—	—	—	—
Corporate bonds	—	7,056	—	—	—	—
Municipal securities	—	1,502	—	—	—	—
U.S. government securities	4,020	—	—	—	—	—
Total	\$ 175,120	\$ 72,469	\$ —	\$ 337,234	\$ —	\$ —

Loans are recorded at the lower of cost or fair value. To determine the fair value of loans, the Company utilizes industry-standard valuation modeling, such as discounted cash flow models, to arrive at an estimate of fair value.

A summary of loans disclosed at fair value on a recurring basis is as follows (in thousands):

	June 30, 2016	
	Carrying Value	Fair Value (Level 3)
Loans held for sale	29,774	32,167
Total	29,774	32,167

As of December 31, 2015, the difference between the fair value of loans and the carrying value is insignificant.

The carrying amounts of certain financial instruments, including cash equivalents, settlements receivable, merchant cash advance receivable, accounts payable, customers payable, and settlements payable, approximate their fair values due to their short-term nature.

If applicable, the Company will recognize transfers into and out of levels within the fair value hierarchy at the end of the reporting period in which the actual event or change in circumstance occurs. During the three and six months ended June 30, 2016 and 2015, the Company did not have any transfers in or out of Level 1, Level 2, or Level 3 assets or liabilities.

#### NOTE 4 - INVESTMENTS

The Company determines the appropriate classification of its investments in marketable securities at the time of purchase and reevaluates such designation at each balance sheet date. The Company has classified and accounted for its marketable securities as available-for-sale.

The Company's short-term and long-term investments as of June 30, 2016 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Short-term securities:</b>				
U.S. agency securities	\$ 11,605	\$ 12	\$ —	\$ 11,617
Corporate bonds	8,801	4	—	8,805
Commercial paper	22,465	—	—	22,465
Municipal securities	3,006	—	(1)	3,005
U.S. government securities	15,080	19	—	15,099
<b>Total</b>	<b>\$ 60,957</b>	<b>\$ 35</b>	<b>\$ (1)</b>	<b>\$ 60,991</b>
<b>Long-term securities:</b>				
U.S. agency securities	\$ 7,005	\$ 19	\$ —	\$ 7,024
Corporate bonds	7,047	9	—	7,056
Municipal securities	1,501	1	—	1,502
U.S. government securities	4,003	17	—	4,020
<b>Total</b>	<b>\$ 19,556</b>	<b>\$ 46</b>	<b>\$ —</b>	<b>\$ 19,602</b>

For the three and six months ended June 30, 2016, gains or losses realized on the sale of investments were insignificant. Investments are reviewed periodically to identify possible other-than-temporary impairments. As the Company has the ability and intent to hold these investments with unrealized losses until a recovery of fair value, or for a reasonable period of time sufficient for the recovery of fair value, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired as of June 30, 2016.

The contractual maturities of the Company's short-term and long-term investments as of June 30, 2016 are as follows (in thousands):

	Amortized Cost	Fair Value
Due in one year or less	\$ 60,957	\$ 60,991
Due in one to five years	19,556	19,602
<b>Total</b>	<b>\$ 80,513</b>	<b>\$ 80,593</b>

**NOTE 5 - ALLOWANCE FOR MERCHANT CASH ADVANCE LOSSES**

The following table summarizes the activities of the Company's allowance for uncollectible merchant cash advance receivables (in thousands):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Allowance for uncollectible MCA receivables, beginning of the period	\$ 7,458	\$ 4,935	\$ 7,443	\$ 2,431
Provision for (reduction in) uncollectible MCA receivables	(166)	644	(93)	3,148
MCA receivables charged off	(2,201)	(302)	(2,259)	(302)
Allowance for uncollectible MCA receivables, end of the period	<u>\$ 5,091</u>	<u>\$ 5,277</u>	<u>\$ 5,091</u>	<u>\$ 5,277</u>

As of June 30, 2016, the Company has fully transitioned from offering MCAs to loans. The table above includes a reduction in uncollectible receivables for the three and six months ended June 30, 2016, primarily as a result of updates to the Company's provision estimates for historical balances. Additionally, the Company charged off certain MCA receivables based on payment inactivity.

**NOTE 6 - PROPERTY AND EQUIPMENT, NET**

The following is a summary of property, equipment, and internally-developed software at cost, less accumulated depreciation and amortization (in thousands):

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
Computer equipment	\$ 47,685	\$ 43,531
Office furniture and equipment	9,604	9,339
Leasehold improvements	67,823	65,298
Capitalized software	19,974	14,533
Construction in process	256	490
Total	145,342	133,191
Less: Accumulated depreciation and amortization	(59,017)	(45,969)
Property and equipment, net	<u>\$ 86,325</u>	<u>\$ 87,222</u>

Depreciation and amortization expense on property and equipment was \$6.9 million and \$13.3 million for the three and six months ended June 30, 2016, respectively. Depreciation and amortization expense on property and equipment was \$4.8 million and \$9.2 million for the three and six months ended June 30, 2015, respectively.

**NOTE 7 - GOODWILL**

Goodwill is recorded when the consideration paid for an acquisition of a business exceeds the fair value of identifiable net tangible and intangible assets acquired. As of both June 30, 2016 and December 31, 2015, goodwill was \$56.7 million.

The Company performs a goodwill impairment test annually on December 31 and more frequently if events and circumstances indicate that the asset might be impaired. For the periods presented, the Company had recorded no impairment charges.

**NOTE 8 - ACQUIRED INTANGIBLE ASSETS**

The following table presents the detail of acquired intangible assets as of the periods presented (in thousands):

	<b>Balance as of June 30, 2016</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Patent	\$ 1,285	\$ (400)	\$ 885
Technology Assets	29,045	(10,900)	18,145
Customer Assets	6,645	(3,346)	3,299
Total	<u>\$ 36,975</u>	<u>\$ (14,646)</u>	<u>\$ 22,329</u>

	<b>Balance as of December 31, 2015</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Patent	\$ 1,285	\$ (348)	\$ 937
Technology Assets	28,645	(6,644)	22,001
Customer Assets	6,645	(2,807)	3,838
Total	<u>\$ 36,575</u>	<u>\$ (9,799)</u>	<u>\$ 26,776</u>

The weighted average amortization periods for acquired patents, acquired technology, and customer intangible assets are approximately 13 years , three years , and six years , respectively.

Amortization expense associated with other intangible assets was \$2.1 million and \$4.8 million for the three and six months ended June 30, 2016 , respectively. Amortization expense associated with other intangible assets was \$1.7 million and \$2.7 million for the three and six months ended June 30, 2015 , respectively.

The total estimated annual future amortization expense of these intangible assets as of June 30, 2016 is as follows (in thousands):

2016 (remaining 6 months)	\$ 4,125
2017	7,187
2018	5,687
2019	2,983
2020	1,087
Thereafter	1,260
Total	<u>\$ 22,329</u>

**NOTE 9 - OTHER CONSOLIDATED BALANCE SHEET COMPONENTS (CURRENT)*****Other Current Assets***

The following table presents the detail of other current assets (in thousands):

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
Accounts receivable	\$ 4,563	\$ 4,808
Prepaid expenses	8,730	7,101
Deferred reader costs	3,310	4,018
Inventory	17,199	11,864
Tenant improvement reimbursement receivable	1,350	1,788
Deferred hardware costs	3,363	1,709
Processing costs receivable	4,670	7,847
Other	5,288	2,312
<b>Total</b>	<b>\$ 48,473</b>	<b>\$ 41,447</b>

***Accrued Expenses***

The following table presents the detail of accrued expenses (in thousands):

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
Accrued hardware costs	\$ 1,660	\$ 11,622
Processing costs payable	2,865	11,417
Accrued professional fees	5,434	7,642
Accrued payroll	3,347	2,660
Other accrued liabilities	12,827	11,060
<b>Total</b>	<b>\$ 26,133</b>	<b>\$ 44,401</b>

***Other Current Liabilities***

The following table presents the detail of other current liabilities (in thousands):

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
Settlements payable	23,684	\$ 13,105
Employee early exercised stock options	1,140	2,141
Accrued redemptions	1,036	1,066
Current portion of deferred rent	2,657	2,393
Deferred revenue	5,119	6,623
Other	9,154	3,617
<b>Total</b>	<b>\$ 42,790</b>	<b>\$ 28,945</b>

**NOTE 10 - OTHER CONSOLIDATED BALANCE SHEET COMPONENTS (NON-CURRENT)*****Other Non-Current Assets***

The following table presents the detail of other non-current assets (in thousands):

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
Deposits	\$ 2,587	\$ 1,993
Deferred tax assets	130	188
Other	1,461	1,645
Total	<u>\$ 4,178</u>	<u>\$ 3,826</u>

***Other Non-Current Liabilities***

The following table presents the detail of other non-current liabilities (in thousands):

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
Deferred rent	\$ 24,427	\$ 25,543
Employee early exercised stock options	365	1,128
Deferred tax liabilities	285	299
Statutory liabilities	25,255	25,492
Other	32	60
Total	<u>\$ 50,364</u>	<u>\$ 52,522</u>

**NOTE 11 - DEBT**

In November 2015, the Company entered into a revolving credit agreement with certain lenders, which extinguished the prior revolving credit agreement and provided for a \$375.0 million revolving secured credit facility maturing in November 2020. This revolving credit agreement is secured by certain tangible and intangible assets.

Loans under the credit facility bear interest at the Company's option of (i) a base rate based on the highest of the prime rate, the federal funds rate plus 0.50%, and an adjusted LIBOR rate for a one-month interest period, in each case plus a margin ranging from 0.00% to 1.00%, or (ii) an adjusted LIBOR rate plus a margin ranging from 1.00% to 2.00%. This margin is determined based on the Company's total leverage ratio for the preceding four fiscal quarters. The Company is obligated to pay other customary fees for a credit facility of this size and type including an annual administrative agent fee of \$0.1 million and an unused commitment fee of 0.15%. To date no funds have been drawn under the credit facility, with \$375.0 million remaining available. The Company paid \$0.1 million and \$0.3 million in unused commitment fees during the three and six months ended June 30, 2016, respectively.

**NOTE 12 - ACCRUED TRANSACTION LOSSES**

The Company is exposed to transaction losses due to chargebacks as a result of fraud or uncollectibility. Recoveries are reflected as a reduction in the reserve for transaction losses when the recovery occurs.

The following table summarizes the activities of the Company's reserve for transaction losses (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Accrued transaction losses, beginning of the period	\$ 15,419	\$ 16,811	\$ 17,176	\$ 8,452
Provision for transaction losses	16,210	7,809	23,392	21,566
Charge-offs and recoveries to accrued transaction losses	(15,536)	(8,776)	(24,475)	(14,174)
Accrued transaction losses, end of the period	\$ 16,093	\$ 15,844	\$ 16,093	\$ 15,844

#### NOTE 13 - INCOME TAXES

The Company recorded an income tax expense of \$0.3 million and \$0.7 million for the three and six months ended June 30, 2016, respectively, compared to income tax expense of \$1.2 million and \$1.6 million for the three and six months ended June 30, 2015, respectively. The income tax expense recorded for the three and six months ended June 30, 2016 was primarily due to state and foreign income tax expense.

The Company's effective tax rate was approximately (1.2)% and (0.5)% for the three and six months ended June 30, 2016, respectively, compared to an effective tax rate of (4.0)% and (2.1)% for the three and six months ended June 30, 2015, respectively. The difference between the effective tax rate and the federal statutory tax rate for the three and six months ended June 30, 2016 primarily relates to the valuation allowance on the Company's deferred tax assets.

The Company's effective tax rate may be subject to fluctuation during the year as new information is obtained, which may affect the assumptions used to estimate the annual effective tax rate, including factors such as the mix of forecasted pre-tax earnings in the various jurisdictions in which the Company operates, valuation allowances against deferred tax assets, the recognition and de-recognition of tax benefits related to uncertain tax positions, and changes in or the interpretation of tax laws in jurisdictions where the Company conducts business.

As of June 30, 2016, the Company retains a full valuation allowance on its deferred tax assets in the U.S. and certain foreign jurisdictions. The realization of the Company's deferred tax assets depends primarily on its ability to generate taxable income in future periods. The amount of deferred tax assets considered realizable in future periods may change as management continues to reassess the underlying factors it uses in estimating future taxable income.

The tax provision for the three and six months ended June 30, 2016 was calculated on a jurisdiction basis. The Company estimated the foreign income tax provision using the effective income tax rate expected to be applicable for the full year.

#### NOTE 14 - STOCKHOLDERS' EQUITY

##### *Common Stock*

The Company has authorized the issuance of Class A common stock and Class B common stock. Class A common stock and Class B common stock are referred to as "common stock" throughout these Notes to the Condensed Consolidated Financial Statements, unless otherwise noted. As of June 30, 2016, the Company was authorized to issue 1,000,000,000 shares of Class A common stock and 500,000,000 shares of Class B common stock, each with a par value of \$0.0000001 per share. As of June 30, 2016, there were 118,365,688 shares of Class A common stock and 222,597,682 shares of Class B common stock outstanding.

## Stock Plans

The Company maintains two share-based employee compensation plans: the 2009 Stock Plan (2009 Plan) and the 2015 Equity Incentive Plan (2015 Plan). The 2015 Plan serves as the successor to the 2009 Plan. The 2015 Plan became effective as of November 17, 2015. Outstanding awards under the 2009 Plan continue to be subject to the terms and conditions of the 2009 Plan.

Under the 2015 Plan, shares of common stock are reserved for the issuance of incentive and nonstatutory stock options, restricted stock awards, restricted stock units (RSUs), performance shares, and stock bonuses to qualified employees, directors, and consultants. The shares may be granted at a price per share not less than the fair market value at the date of grant. Initially, 30,000,000 shares were reserved under the 2015 Plan, and any shares subject to options or other similar awards granted under the 2009 Plan that expire, are forfeited, are repurchased by the Company, or otherwise terminate unexercised will become available under the 2015 Plan. The number of shares available for issuance under the 2015 Plan will be increased on the first day of each fiscal year, in an amount equal to the least of (i) 40,000,000 shares, (ii) 5% of the outstanding shares on the last day of the immediately preceding fiscal year, or (iii) such number of shares determined by the Company's board of directors. As of June 30, 2016, the total number of shares subject to stock options and RSUs outstanding under the 2015 Plan was 18,678,552, and 33,719,245 shares were available for future issuance. As of June 30, 2016, the total number of shares subject to stock options and RSUs outstanding under the 2009 Plan was 95,302,472. As of November 17, 2015, no additional securities will be issued under 2009 Plan.

A summary of stock option activity for the six months ended June 30, 2016 is as follows (in thousands, except share and per share data):

	Number of Stock Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Balance as of December 31, 2015	107,515,554	\$ 6.99	7.87	\$ 656,194
Granted	1,707,320	13.54		
Exercised	(4,225,876)	1.91		
Forfeited	(5,993,756)	\$ 11.26		
Balance as of June 30, 2016	99,003,242	7.06	7.57	307,645
Options vested and expected to vest as of				
June 30, 2016	92,406,077	6.79	6.88	303,773
Options exercisable as of				
June 30, 2016	94,552,296	6.89	7.47	307,645

## Restricted Stock Activity

The Company issued RSUs to certain employees in fiscal year 2015. These RSUs typically vest over a term of four years.

Activity related to RSUs during the six months ended June 30, 2016 is set forth below:

	Number of RSUs	Weighted Average Grant Date Fair Value
Unvested as of December 31, 2015	3,632,765	\$ 13.14
Granted	12,649,921	12.43
Vested	(754,643)	12.38
Forfeited	(550,261)	13.53
Unvested as of June 30, 2016	14,977,782	\$ 12.56

### Share-Based Compensation

The fair value of stock options and employee stock purchase plan shares granted to employees is estimated on the date of grant using the Black-Scholes-Merton option valuation model.

Effective August 31, 2015, the Company modified all of its nonstatutory stock option grants to extend the exercise term for terminated employees who have completed two years of service. In the event of a termination, the modified expiration date will be the earlier of (i) three years from termination or (ii) one year following an initial public offering, if in each case, the date of termination occurs between August 31, 2015 and the nine-month anniversary of the initial public offering. In all cases, the grants remain subject to earlier expiration in accordance with their original terms. During the three and six months ended June 30, 2016, share-based compensation expense included \$0.7 million and \$1.4 million, respectively, related to the vested portion of the impacted options, as a result of the modification. The Company will incur an additional \$6.3 million of share-based compensation expense over the remaining vesting periods of the impacted options.

The fair value of stock options granted was estimated using the following weighted-average assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Dividend yield	—%	—%	—%	—%
Risk-free interest rate	1.55%	1.80%	1.55%	1.74%
Expected volatility	42.71%	46.27%	42.71%	48.63%
Expected term (years)	6.08	6.08	6.08	6.10

The following table summarizes the effects of share-based compensation on the Company's condensed consolidated statements of operations (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Product development	\$ 24,168	\$ 10,391	\$ 46,115	\$ 19,349
Sales and marketing	3,363	1,345	6,266	2,774
General and administrative	9,391	3,496	15,739	6,570
Total	\$ 36,922	\$ 15,232	\$ 68,120	\$ 28,693

On November 17, 2015, the Company's 2015 Employee Stock Purchase Plan (ESPP) became effective. During the three and six months ended June 30, 2016, the Company recorded \$1.5 million and \$3.0 million, respectively, of share-based compensation expense related to the ESPP, which is included in the table above. There was no similar activity during the three and six months ended June 30, 2015.

As of June 30, 2016, there was \$303.3 million of total unrecognized compensation cost related to outstanding stock options that is expected to be recognized over a weighted-average period of 3.07 years.

### NOTE 15 - LOSS PER SHARE

Basic net loss per share is computed by dividing the net loss by the weighted-average number of shares of common stock outstanding during the period. Diluted loss per share is the same as basic loss per share for all years presented because the effects of potentially dilutive items were anti-dilutive given the Company's net loss.

The following table presents the calculation of basic and diluted net loss per share (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net loss	\$ (27,345)	\$ (29,620)	\$ (124,100)	\$ (77,598)
Basic shares:				
Weighted-average common shares outstanding	337,635	154,464	336,406	152,827
Weighted-average unvested shares	(3,147)	(5,211)	(3,500)	(5,539)
Weighted-average shares used to compute basic net loss per share	334,488	149,253	332,906	147,288
Diluted shares:				
Weighted-average shares used to compute diluted loss per share	334,488	149,253	332,906	147,288
Net loss per share:				
Basic	\$ (0.08)	\$ (0.20)	\$ (0.37)	\$ (0.53)
Diluted	\$ (0.08)	\$ (0.20)	\$ (0.37)	\$ (0.53)

The following potential common shares were excluded from the calculation of diluted net loss per share because their effect would have been anti-dilutive for the periods presented (in thousands):

	Three and Six Months Ended June 30,	
	2016	2015
Stock options and restricted stock units	113,981	103,628
Common stock warrants	9,458	15,762
Preferred stock warrants	—	87
Convertible preferred stock	—	135,253
Unvested shares	2,878	5,211
Employee stock purchase plan	127	—
Total anti-dilutive securities	126,444	259,941

#### NOTE 16 - OTHER INCOME AND EXPENSE, NET

Other income and expense, net, is comprised of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net (gain) loss on foreign exchange	\$ (108)	\$ (57)	\$ (1,005)	\$ 714
Other	(90)	7	21	32
Total other (income) and expense, net	\$ (198)	\$ (50)	\$ (984)	\$ 746

## NOTE 17 - COMMITMENTS AND CONTINGENCIES

### *Operating and Capital Leases*

The Company has entered into various non-cancelable operating leases for certain offices with contractual lease periods expiring between 2016 and 2025. The Company recognized total rental expenses under operating leases of \$2.7 million and \$5.5 million for the three and six months ended June 30, 2016, respectively, compared to \$3.3 million and \$6.8 million for the three and six months ended June 30, 2015, respectively.

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) and future minimum capital lease payments as of June 30, 2016 are as follows (in thousands):

	<u>Capital</u>	<u>Operating</u>
Year:		
2016 (remaining 6 months)	\$ 33	\$ 7,842
2017	50	15,858
2018	7	15,622
2019	—	15,511
2020	—	15,590
Thereafter	—	51,629
Total	<u>\$ 90</u>	<u>\$ 122,052</u>
Less amount representing interest	<u>(4)</u>	
Present value of capital lease obligations	86	
Less current portion of capital lease obligation	<u>(62)</u>	
Non-current portion of capital lease obligation	<u>\$ 24</u>	

### *Litigation*

The Company is currently a party to, and may in the future be involved in, various litigation matters (including intellectual property litigation), legal claims, and government investigations.

Notably, the Company was involved in legal proceedings with Robert E. Morley and REM Holdings 3, LLC (REM), which included disputes over certain patents and over Mr. Morley's early involvement in the business enterprise that became Square. On December 1, 2010, the Company, along with its co-founder Jim McKelvey, filed a complaint (2010 Complaint) in the United States District Court for the Eastern District of Missouri to, among other things, add Mr. McKelvey as a named inventor of certain patents of which Mr. Morley was named the sole inventor. REM counterclaimed, alleging infringement by the Company of the patents. On January 30, 2014, Mr. Morley and REM filed a complaint against the Company, Jack Dorsey, and Mr. McKelvey, in the same Court, alleging that the formation of Square and the development of the Company's card reader and decoding technologies constituted, among other things, breach of an alleged joint venture, fraud, negligent misrepresentation, civil conspiracy, unjust enrichment, and misappropriation of trade secrets, as well as other related claims (2014 Complaint), and sought a judgment and order that the Company, Mr. Dorsey, and Mr. McKelvey held ownership of Square in constructive trust for Mr. Morley, as well as a variety of additional damages, injunctive relief, royalties, and correction of inventorship of certain of the Company's patents. The Court consolidated the 2014 Complaint with the 2010 Complaint (collectively, the Complaints) on July 16, 2014.

On June 8, 2016, a final, definitive settlement agreement (Settlement Agreement) resolving the Complaints was entered into by Mr. Morley, REM, Mr. Dorsey, Mr. McKelvey, and the Company. The Settlement Agreement required an aggregate total payment of \$ 50 million to plaintiffs, including meaningful contributions by Mr. Dorsey and Mr. McKelvey. The Company made a payment of \$ 48 million to plaintiffs and met its obligations under the Settlement Agreement. On June 17, 2016, the Court entered an Order dismissing the Complaints in their entirety, with prejudice.

Additionally, the Company is involved in a class action lawsuit concerning independent contractors in connection with the Company's Caviar business. On March 19, 2015, Jeffrey Levin, on behalf of a putative nationwide class, filed a lawsuit in the Northern District of California against the Company's wholly owned subsidiary, Caviar, Inc., which, as amended, alleges that Caviar misclassified Mr. Levin and other similarly situated couriers as independent contractors and, in doing so, violated various provisions of the California Labor Code and California Business and Professions Code by requiring them to pay various business expenses that should have been borne by Caviar. The Court compelled arbitration of Mr. Levin's individual claims on November 16, 2015 and dismissed the lawsuit in its entirety with prejudice on May 2, 2016. On June 1, 2016, Mr. Levin filed a Notice of Appeal of the Court's order compelling arbitration. Mr. Levin also sought an award of penalties pursuant to the Labor Code Private Attorneys General Act of 2004 (PAGA). The parties stipulated that Mr. Levin would no longer pursue this PAGA claim, and this claim is instead being pursued by a different courier.

In addition, from time to time, the Company is involved in various other litigation matters and disputes arising in the ordinary course of business. While it is not feasible to predict or determine the ultimate outcome of these matters, the Company believes that none of the Company's current legal proceedings will have a material adverse effect on the Company's business.

#### NOTE 18 - SEGMENT AND GEOGRAPHICAL INFORMATION

Operating segments are defined as components of an enterprise for which discrete financial information is available that is evaluated regularly by the chief operating decision maker (CODM) for purposes of allocating resources and evaluating financial performance. The Company's CODM reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. As such, the Company's operations constitute a single operating segment and one reportable segment.

##### Revenue

Revenue by geography is based on the billing addresses of the merchants. The following table sets forth revenue by geographic area (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
<b>Revenue</b>				
United States	\$ 421,808	\$ 299,326	\$ 789,387	\$ 542,282
International	16,725	10,687	28,415	18,288
Total net revenue	\$ 438,533	\$ 310,013	\$ 817,802	\$ 560,570

No individual country from the international markets contributed in excess of 10% of total revenue for three and six months ended June 30, 2016 and 2015.

##### Long-Lived Assets

The following table sets forth long-lived assets by geographic area (in thousands):

	June 30, 2016	December 31, 2015
<b>Long-lived assets</b>		
United States	\$ 162,469	\$ 168,583
International	2,884	2,114
Total long-lived assets	\$ 165,353	\$ 170,697

## NOTE 19 - SUPPLEMENTAL CASH FLOW INFORMATION

The supplemental disclosures of cash flow information consist of the following (in thousands):

	Six Months Ended June 30,	
	2016	2015
<b>Supplemental Cash Flow Data:</b>		
Cash paid for interest	\$ 284	\$ 744
Cash paid for income taxes	168	791
<b>Supplemental disclosures of non-cash investing and financing activities:</b>		
Change in purchases of property and equipment in accounts payable and accrued expenses	4,192	5,394
Fair value of shares issued related to acquisitions	—	22,887

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

*You should read the following discussion and analysis in conjunction with the information set forth within the condensed consolidated financial statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q. The statements in this discussion regarding our expectations of our future performance, liquidity and capital resources, our plans, estimates, beliefs and expectations that involve risks and uncertainties, and other non-historical statements in this discussion, are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described under "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q. Our actual results may differ materially from those contained in or implied by any forward-looking statements.*

#### Overview

We started Square in February 2009 to enable anyone with a mobile device to accept card payments, anywhere, anytime. While we found early success providing easy access to card payments, commerce extends beyond payments. In every transaction, we see opportunity for our sellers: to learn more about which products are selling best, to reinvest in their businesses, or to create and engage loyal buyers. Although we currently generate approximately 90% of our total net revenue from payment processing services, which include revenue generated from Starbucks, we have extended our product and service offerings to include additional software and data products, all to help sellers start, run, and grow their businesses.

We work to democratize commerce—leveling the playing field for sellers of all sizes. Our focus on technology and design allows us to create products and services that are accessible, intuitive, and easy-to-use. We set attractive and transparent pricing that is easy for our sellers to understand. We provide a free software app with our affordable (often free) hardware to turn mobile devices into powerful point-of-sale (POS) solutions in minutes. Our insights into our sellers' businesses have allowed us to develop services that are applicable to businesses of all types and sizes, from Square Analytics to digital receipts. We continue to add advanced software features that tailor our POS solution to specific types of sellers, such as food-related, services, and retail businesses. We also bring further capabilities to our sellers through Build with Square, a suite of developer tools that allows sellers to process online payments on their own self-hosted website, customize any iOS point-of-sale to process payments with Square, and track, manage, and grow both their online and offline businesses in a single dashboard.

Because of our approach, we have grown rapidly. Millions of sellers accept payments with Square. They span all types of businesses: from cabs to coffee shops, lawyers to landscapers, retail stores to restaurants. Although substantially all of our revenue is currently generated in the United States, we also serve sellers throughout Canada, Japan and, as of the first quarter of 2016, Australia. As this international base of sellers grows, we expect our Gross Payment Volume (GPV) and revenue in these regions to grow as well. We serve sellers of all sizes, ranging from a single vendor at a farmers' market to multinational businesses. Our products and services are built to scale, so sellers can stay with us over the life of their businesses.

The addition of new products and services is also a key part of our strategy. Our scale, growth, and unique insights enable us to serve sellers of all sizes with additional services, further strengthening our business. For example, we expect sellers who grow sales as a result of deploying funds from Square Capital into their business will likely also process increased payment volume with us. We are also focused on evolving each of our services to best serve our sellers, as evidenced by Square Capital's recent expansion from offering merchant cash advances (MCAs) to offering business loans, which offer increased flexibility for sellers, and position the service for continued scalable growth. As of June 30, 2016, we have fully transitioned from offering MCAs to loans.

For the three and six months ended June 30, 2016, we processed \$12.5 billion and \$22.7 billion of GPV, up 42% and 43% from the three and six months ended June 30, 2015, respectively. For the three and six months ended June 30, 2016, our total net revenue grew to \$439 million and \$818 million, up 41% and 46% from the three and six months ended June 30, 2015, respectively. For the three and six months ended June 30, 2016, our Adjusted Revenue grew to \$171 million and \$317 million, up 54% and 59% from the three and six months ended June 30, 2015, respectively. We intend to continue to make investments that will serve sellers and buyers over the long term even if a return on these investments is not realized in the short term. For the three and six months ended June 30, 2016, we generated a net loss of \$27.3 million and \$124.1 million, respectively. For the three and six months ended June 30, 2015, we generated a net loss of \$29.6 million and \$77.6 million, respectively.

## Results of Operations

### Revenue (in thousands, except for percentages)

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016	2015	\$ Change	% Change	2016	2015	\$ Change	% Change
Transaction revenue	\$ 364,864	\$ 259,864	\$ 105,000	40 %	\$ 665,317	\$ 470,974	\$ 194,343	41%
Starbucks transaction revenue	32,867	33,630	\$ (763)	(2)%	\$ 71,705	\$ 62,867	\$ 8,838	14%
Software and data product revenue	29,717	12,928	\$ 16,789	130 %	\$ 53,513	\$ 20,934	\$ 32,579	156%
Hardware revenue	11,085	3,591	\$ 7,494	209 %	\$ 27,267	\$ 5,795	\$ 21,472	371%
Total net revenue	\$ 438,533	\$ 310,013	\$ 128,520	41 %	\$ 817,802	\$ 560,570	\$ 257,232	46%

Total net revenue for the three and six months ended June 30, 2016 increased by \$128.5 million or 41% and \$257.2 million or 46%, respectively, compared to the three and six months ended June 30, 2015.

Transaction revenue for the three and six months ended June 30, 2016 increased by \$105.0 million or 40% and \$194.3 million or 41%, respectively, compared to the three and six months ended June 30, 2015. This increase was attributable to growth in GPV processed for the three and six months ended June 30, 2016 of 42% and 43%, respectively, compared to the three and six months ended June 30, 2015. New-seller growth made up the majority of our GPV increase, while positive dollar-based retention from existing sellers also had a meaningful impact. Transaction revenue contributed 83% and 81% of total net revenue in the three and six months ended June 30, 2016, respectively, compared to 84% in both the three and six months ended June 30, 2015.

Starbucks transaction revenue for the three and six months ended June 30, 2016 decreased by \$0.8 million or 2% and increased \$8.8 million or 14%, respectively, compared to the three and six months ended June 30, 2015. Starbucks transaction revenue contributed 7% and 9% of total net revenue in the three and six months ended June 30, 2016, respectively, compared to 11% in both the three and six months ended June 30, 2015. Under our amended payment processing agreement, effective October 1, 2015, Starbucks agreed to pay increased processing rates to us for as long as it continues to process transactions with us. While Starbucks announced that it would transition to another payment processor prior to the expiration of the payment processing agreement in the third quarter of 2016, we are continuing to process a portion of Starbucks payments, generating transaction revenue at the newly increased rates. We are now negotiating an amendment that may extend the agreement beyond the third quarter of 2016 to allow Starbucks additional time to complete their transition, which has been taking longer than anticipated.

Software and data product revenue for the three and six months ended June 30, 2016 increased by \$16.8 million or 130% and \$32.6 million or 156% , respectively, compared to the three and six months ended June 30, 2015 . The increase was primarily driven by continued growth and expansion of Square Capital and Caviar, and to a lesser extent, the launch and expansion of new products and services, including Instant Deposit. During the three and six months ended June 30, 2016 , Square Capital and Caviar remained the largest contributors to software and data product revenue. Software and data product revenue contributed 7% of total net revenue in both the three and six months ended June 30, 2016 , respectively, compared to 4% in both the three and six months ended June 30, 2015 .

Hardware revenue for the three and six months ended June 30, 2016 , increased by \$7.5 million or 209% and \$21.5 million or 371% , respectively, compared to the three and six months ended June 30, 2015 . The increase primarily reflects growth in shipments of our Square Reader for Europay, MasterCard, and Visa (EMV) chip cards and near field communication (NFC) following its launch in the fourth quarter of 2015. We also continued to generate increased sales across all of our paid hardware products, including Square Stand and third-party peripherals. Hardware revenue contributed 3% of total net revenue in both the three and six months ended June 30, 2016 , respectively, compared to 1% in both the three and six months ended June 30, 2015 , respectively.

**Total Cost of Revenue (in thousands, except for percentages)**

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016	2015	\$ Change	% Change	2016	2015	\$ Change	% Change
Transaction costs	\$ 234,857	\$ 165,823	\$ 69,034	42 %	\$ 429,133	\$ 297,930	\$ 131,203	44 %
Starbucks transaction costs	28,672	40,921	\$ (12,249)	(30)%	\$ 65,282	\$ 77,132	\$ (11,850)	(15)%
Software and data product costs	10,144	5,072	\$ 5,072	100 %	\$ 19,177	\$ 8,227	\$ 10,950	133 %
Hardware costs	14,015	6,713	\$ 7,302	109 %	\$ 40,755	\$ 10,910	\$ 29,845	274 %
Amortization of acquired technology	1,886	1,142	\$ 744	65 %	\$ 4,256	\$ 1,744	\$ 2,512	144 %
Total cost of revenue	\$ 289,574	\$ 219,671	\$ 69,903	32 %	\$ 558,603	\$ 395,943	\$ 162,660	41 %

Total cost of revenue for the three and six months ended June 30, 2016 increased by \$69.9 million or 32% and \$162.7 million or 41% , respectively, compared to the three and six months ended June 30, 2015 .

Transaction costs for the three and six months ended June 30, 2016 increased by \$69.0 million or 42% and \$131.2 million or 44% , respectively, compared to the three and six months ended June 30, 2015 . This increase was attributable to growth in GPV processed for the three and six months ended June 30, 2016 of 42% and 43% , respectively, compared to the three and six months ended June 30, 2015 .

Starbucks transaction costs for the three and six months ended June 30, 2016 decreased by \$12.2 million or 30% and \$11.9 million or 15% , respectively, compared to the three and six months ended June 30, 2015 . Starbucks' previously announced transition to another payment processor drove a reduction in Starbucks-related payment volumes, offset by Starbucks' agreement to pay us increased processing rates effective October 1, 2015. As a result, for the three and six months ended June 30, 2016 , we experienced a decline in Starbucks transaction costs as a percent of Starbucks transaction revenue, compared to the three and six months ended June 30, 2015 .

Software and data product costs for the three and six months ended June 30, 2016 increased by \$5.1 million or 100% and \$11.0 million or 133% , respectively, compared to the three and six months ended June 30, 2015 , primarily reflecting increased costs associated with the growth of Caviar. To a lesser extent we also incurred increased amortization costs related to the development of certain software and data products.

Hardware costs for the three and six months ended June 30, 2016 increased by \$7.3 million or 109% and \$29.8 million or 274% , respectively, compared to the three and six months ended June 30, 2015 . The increase primarily reflects growth in shipments of our Square Reader for EMV chip cards and NFC following its launch in the fourth quarter of 2015, and to a lesser extent, increased sales of Square Stand, third-party peripherals, and other paid hardware products. Hardware costs associated

with the production of Square Stand exceed the revenue we derive from sales of Square Stand. For the three and six months ended June 30, 2016 , hardware costs grew more slowly than hardware revenue as a result of increased sales of third-party peripherals, the introduction of our Square Reader for EMV chip cards and NFC, and growth in other paid hardware products outside of Square Stand.

Amortization of acquired technology for the three and six months ended June 30, 2016 increased by \$0.7 million or 65% and \$2.5 million or 144% , respectively, compared to the three and six months ended June 30, 2015 . The increase was primarily related to new technology assets obtained through acquisitions that occurred in 2015.

**Operating Expenses (in thousands, except for percentages)**

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016	2015	\$ Change	% Change	2016	2015	\$ Change	% Change
Product development	\$ 68,638	\$ 45,887	\$ 22,751	50 %	\$ 133,230	\$ 85,432	\$ 47,798	56 %
<i>% of total net revenue</i>	16%	15%			16%	15%		
Sales and marketing	\$ 39,220	\$ 31,730	\$ 7,490	24 %	\$ 77,716	\$ 67,911	\$ 9,805	14 %
<i>% of total net revenue</i>	9%	10%			10%	12%		
General and administrative	\$ 50,784	\$ 31,804	\$ 18,980	60 %	\$ 146,891	\$ 59,923	\$ 86,968	145 %
<i>% of total net revenue</i>	12%	10%			18%	11%		
Transaction, loan and advance losses	\$ 17,455	\$ 8,513	\$ 8,942	105 %	\$ 25,316	\$ 24,835	\$ 481	2 %
<i>% of total net revenue</i>	4%	3%			3%	4%		
Amortization of acquired customer assets	\$ 222	\$ 482	\$ (260)	(54)%	\$ 539	\$ 950	\$ (411)	(43)%
<i>% of total net revenue</i>	—%	—%			—%	—%		
<b>Total operating expenses</b>	<b>\$ 176,319</b>	<b>\$ 118,416</b>	<b>\$ 57,903</b>	<b>49 %</b>	<b>\$ 383,692</b>	<b>\$ 239,051</b>	<b>\$ 144,641</b>	<b>61 %</b>

Product development expenses for the three and six months ended June 30, 2016 increased by \$22.8 million or 50% and \$47.8 million or 56% , respectively, compared to the three and six months ended June 30, 2015 , due to the addition of engineering, design, and product personnel in the period from June 30, 2015 to June 30, 2016 , combined with increased share-based compensation expense. For the three and six months ended June 30, 2016 , product development expenses included \$24.2 million and \$46.1 million , respectively, of share-based compensation expense, representing a \$13.8 million and \$26.8 million increase, respectively, compared to the three and six months ended June 30, 2015 . For the six months ended June 30, 2016 , we also incurred increased costs associated with the development of our next generation hardware products compared to the six months ended June 30, 2015 .

Sales and marketing expenses for the three and six months ended June 30, 2016 increased by \$7.5 million or 24% and \$9.8 million or 14% , respectively, compared to the three and six months ended June 30, 2015 , primarily due to an increase in sales and marketing personnel in the period from June 30, 2015 to June 30, 2016 . Additionally, for the six months ended June 30, 2016, there was an increase in costs associated with our Square Cash peer-to-peer transfer service compared to the six months ended June 30, 2015. For the three and six months ended June 30, 2016 , sales and marketing expenses included \$3.4 million and \$6.3 million of share-based compensation expense, respectively, representing a \$2.0 million and \$3.5 million increase compared to the three and six months ended June 30, 2015 , respectively. For the three months ended June 30, 2016, paid marketing expenditures increased by \$1.9 million, compared to the three months ended June 30, 2015, primarily due to elevated TV advertising costs. For the six months ended June 30, 2016 , paid marketing expenditures were stable compared to the six months ended June 30, 2015 .

General and administrative expenses for the three and six months ended June 30, 2016 increased by \$19.0 million or 60% and \$87.0 million or 145% , compared to the three and six months ended June 30, 2015 . For the six months ended June 30, 2016 , general and administrative expenses included \$48.0 million of expense related to the settlement of legal proceedings with Robert E. Morley, with no similar activity during the six months ended June 30, 2015 . For the three and six months ended June 30, 2016 , general and administrative expenses included \$9.4 million and \$15.7 million of share-based compensation expense, respectively, representing a \$5.9 million and \$9.2 million increase compared to the three and six months ended June 30,

2015 , respectively. The balance of the increased expenses was primarily due to increases in customer support, legal, compliance, risk, finance, and Square Capital operations personnel that together will drive long-term operating efficiencies as our business scales. We also experienced increased third-party legal, finance, consulting, and certain software license expenses.

Transaction, loan and advance losses for the three and six months ended June 30, 2016 increased by \$8.9 million and \$0.5 million compared to the three and six months ended June 30, 2015 , respectively. During the three months ended June 30, 2016, we recorded an out of period adjustment for the amount of \$6.0 million as a result of a correction to the calculation of our reserve for transaction losses with no similar activity during the three months ended June 30, 2015. However, during the six months ended June 30, 2015, the Company accrued an amount of \$5.7 million related to a fraud loss from a single seller, which offsets the year over year impact of the 2016 out of period adjustment discussed above. The remaining increase was attributable to growth in GPV processed for the three and six months ended June 30, 2016 .

Amortization of acquired customer assets for the three and six months ended June 30, 2016 decreased by \$0.3 million and \$0.4 million compared to the three and six months ended June 30, 2015 , respectively, as a result of certain customer assets reaching end of life.

***Interest and Other Income and Expense, Net (in thousands, except for percentages)***

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016	2015	\$ Change	% Change	2016	2015	\$ Change	% Change
Interest (income) and expense, net	\$ (129)	\$ 444	\$ (573)	(129)%	\$ (60)	\$ 858	\$ (918)	(107)%
Other (income) and expense, net	(198)	(50)	(148)	NM	(984)	746	(1,730)	(232)%

Interest (income) and expense, net, for the three and six months ended June 30, 2016 changed by \$0.6 million and \$0.9 million compared to the three and six months ended June 30, 2015 , respectively, primarily driven by interest income earned on our recent investment in marketable securities offsetting interest expense.

Other (income) and expense, net, for the three and six months ended June 30, 2016 changed by \$0.1 million and \$1.7 million compared to the three and six months ended June 30, 2015 , respectively, driven primarily by favorable fluctuations in foreign exchange rates.

***Provision for Income Taxes (in thousands, except for percentages)***

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016	2015	\$ Change	% Change	2016	2015	\$ Change	% Change
Provision for income taxes	\$ 312	\$ 1,152	\$ (840)	(73)%	\$ 651	\$ 1,570	\$ (919)	(59)%
Effective tax rate	(1.2)%	(4.0)%			(0.5)%	(2.1)%		

Provision for income taxes for the three and six months ended June 30, 2016 , decreased by \$0.8 million and \$0.9 million compared to the three and six months ended June 30, 2015 , respectively. The decrease for both periods primarily relates to the reduction in federal income tax expense.

## Key Operating Metrics and Non-GAAP Financial Measures

We collect and analyze operating and financial data to evaluate the health of our business, allocate our resources, and assess our performance. In addition to revenue, net (loss) income, and other results under generally accepted accounting principles in the United States (GAAP), the following table sets forth key operating metrics and non-GAAP financial measures we use to evaluate our business. Each of these metrics and measures excludes the effect of our payment processing agreement with Starbucks. We amended our payment processing agreement with Starbucks to eliminate the exclusivity provision in order to permit Starbucks to begin transitioning to another payment processor starting October 1, 2015. Under the amendment, Starbucks also agreed to pay increased processing rates to us for as long as it continues to process transactions with us. While Starbucks announced that it would transition to another payment processor prior to the expiration of the payment processing agreement in the third quarter of 2016, we are continuing to process a portion of Starbucks payments, generating transaction revenue at the newly increased rates. We are now negotiating an amendment that may extend the agreement beyond the third quarter of 2016 to allow Starbucks additional time to complete their transition, which has been taking longer than anticipated. We do not intend to renew this agreement with Starbucks upon its expiration. As a result, we believe it is useful to exclude Starbucks activity to clearly show the impact Starbucks has had on our financial results historically, to provide insight into the impact of the expected termination of the Starbucks agreement on our revenues going forward, to facilitate period-to-period comparisons of our business, and to facilitate comparisons of our performance to that of other payment processors. Our agreements with other sellers, including Starbucks following the amendment described above, generally provide both those sellers and us the unilateral right to terminate such agreements at any time, without fine or penalty. Furthermore, we generally do not enter into long-term contractual agreements with sellers.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016	2015	\$ Change	% Change	2016	2015	\$ Change	% Change
	(in thousands, except GPV)				(in thousands, except GPV)			
Gross Payment Volume (GPV) (in millions)	\$ 12,451	\$ 8,793	\$ 3,658	42%	\$ 22,741	\$ 15,910	\$ 6,831	43%
Adjusted Revenue	\$ 170,809	\$ 110,560	\$ 60,249	54%	\$ 316,964	\$ 199,773	\$ 117,191	59%
Adjusted EBITDA	\$ 12,554	\$ 859	\$ 11,695	1,361%	\$ 3,471	\$ (19,270)	\$ 22,741	NM

### Gross Payment Volume (GPV)

We define GPV as the total dollar amount of all card payments processed by sellers using Square, net of refunds. GPV excludes card payments processed for Starbucks. Additionally, GPV excludes activity related to our Square Cash peer-to-peer payments service.

### Adjusted Revenue

Adjusted Revenue is a non-GAAP financial measure that we define as our total net revenue less transaction costs, adjusted to eliminate the effect of activity under our payment processing agreement with Starbucks. As described above, Starbucks has announced that it will transition to another payment processor and will cease using our payment processing services altogether, and we believe that providing Adjusted Revenue metrics that exclude the impact of our agreement with Starbucks is useful to investors.

We believe it is useful to exclude transaction costs from Adjusted Revenue as this is a primary metric used by management to measure our business performance, and it affords greater comparability to other payment processing companies. Substantially all of the transaction costs excluded from Adjusted Revenue are interchange fees set by payment card networks and are paid to card issuers, with the remainder of such transaction costs consisting of assessment fees paid to payment card networks, fees paid to third-party payment processors, and bank settlement fees. While some payment processors present their revenue in a similar fashion to us, others present their revenue net of transaction costs because they pass through these costs directly to their sellers. Under our standard pricing model, we do not pass through these costs directly to our sellers.

Adjusted Revenue has limitations as a financial measure, should be considered as supplemental in nature, and is not meant as a substitute for the related financial information prepared in accordance with GAAP. These limitations include the following:

- Adjusted Revenue excludes transaction costs, which is our largest cost of revenue item; and

- other companies, including companies in our industry, may calculate Adjusted Revenue differently from how we calculate this measure or not at all, which reduces its usefulness as a comparative measure.

Because of these limitations, you should consider Adjusted Revenue alongside other financial performance measures, including total net revenue and our financial results presented in accordance with GAAP. The following table presents a reconciliation of total net revenue to Adjusted Revenue for each of the periods indicated:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016	2015	\$ Change	% Change	2016	2015	\$ Change	% Change
	(in thousands)				(in thousands)			
Total net revenue	\$ 438,533	\$ 310,013	\$ 128,520	41 %	\$ 817,802	\$ 560,570	\$ 257,232	46%
Less: Starbucks transaction revenue	32,867	33,630	(763)	(2)%	71,705	62,867	\$ 8,838	14%
Less: transaction costs	234,857	165,823	69,034	42 %	429,133	297,930	\$ 131,203	44%
Adjusted Revenue	\$ 170,809	\$ 110,560	\$ 60,249	54 %	\$ 316,964	\$ 199,773	\$ 117,191	59%

### **Adjusted EBITDA**

Adjusted EBITDA is a non-GAAP financial measure that represents our net loss, adjusted to eliminate the effect of Starbucks transaction revenue, Starbucks transaction costs, and a litigation settlement described in Note 17 of the Notes to the Condensed Consolidated Financial Statements, before interest income and expense, provision or benefit for income taxes, depreciation, amortization, share-based compensation expense, other income and expense, the gain or loss on the sale of property and equipment, and impairment of intangible assets. We have included Adjusted EBITDA in this Quarterly Report on Form 10-Q because it is a key measure used by our management to evaluate our operating performance, generate future operating plans, and make strategic decisions, including those relating to operating expenses and the allocation of internal resources. Accordingly, we believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors. In addition, it provides a useful measure for period-to-period comparisons of our business, as it removes the effect of certain non-cash items and certain variable charges.

We believe it is useful to exclude non-cash charges, such as depreciation and amortization, and share-based compensation expenses, from our Adjusted EBITDA because the amount of such expenses in any specific period may not directly correlate to the underlying performance of our business operations. We exclude Starbucks transaction revenue and Starbucks transaction costs because Starbucks has announced that it will transition to another payment processor and will cease using our payment processing services altogether. We believe that providing Adjusted EBITDA metrics that exclude the impact of our agreement with Starbucks is useful to investors. We exclude the litigation settlement described in Note 17 of the Notes to the Condensed Consolidated Financial Statements, gain or loss on the sale of property and equipment, and impairment of intangible assets from Adjusted EBITDA because we do not believe that these items are reflective of our ongoing business operations. In addition, we believe it is useful to exclude interest income and expense, other income and expense, and provision or benefit from income taxes, as these items are not components of our core business operations. Adjusted EBITDA has limitations as a financial measure, should be considered as supplemental in nature, and is not meant as a substitute for the related financial information prepared in accordance with GAAP. These limitations include the following:

- share-based compensation expense has been, and will continue to be for the foreseeable future, a significant recurring expense in our business and an important part of our compensation strategy;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditures or other capital commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect the effect of income taxes that may represent a reduction in cash available to us;

- Adjusted EBITDA does not reflect the effect of foreign currency exchange gains or losses, which is included in other income and expense; and
- other companies, including companies in our industry, may calculate Adjusted EBITDA differently from how we calculate this measure or not at all, which reduces its usefulness as a comparative measure.

Because of these limitations, you should consider Adjusted EBITDA alongside other financial performance measures, including net loss and our other financial results presented in accordance with GAAP. The following table presents a reconciliation of net loss to Adjusted EBITDA for each of the periods indicated:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016	2015	\$ Change	% Change	2016	2015	\$ Change	% Change
	(in thousands)				(in thousands)			
Net loss	\$ (27,345)	\$ (29,620)	\$ 2,275	NM	\$ (124,100)	\$ (77,598)	\$ (46,502)	NM
Starbucks transaction revenue	(32,867)	(33,630)	763	NM	(71,705)	(62,867)	\$ (8,838)	NM
Starbucks transaction costs	28,672	40,921	(12,249)	(30)%	65,282	77,132	\$ (11,850)	(15)%
Share-based compensation expense	36,922	15,232	21,690	142 %	68,120	28,693	\$ 39,427	137 %
Depreciation and amortization	9,018	6,410	2,608	41 %	18,136	11,956	\$ 6,180	52 %
Litigation settlement (benefit) expense	(2,000)	—	(2,000)	NM	48,000	—	\$ 48,000	NM
Interest (income) and expense	(129)	444	(573)	(129)%	(60)	858	\$ (918)	(107)%
Other (income) and expense	(198)	(50)	(148)	NM	(984)	746	\$ (1,730)	(232)%
Provision for income taxes	312	1,152	(840)	(73)%	651	1,570	\$ (919)	(59)%
Loss (gain) on sale of property and equipment	169	—	169	NM	131	240	\$ (109)	(45)%
Adjusted EBITDA	<u>\$ 12,554</u>	<u>\$ 859</u>	<u>\$ 11,695</u>	NM	<u>\$ 3,471</u>	<u>\$ (19,270)</u>	<u>\$ 22,741</u>	NM

### Liquidity and Capital Resources

The following table summarizes our cash and cash equivalents, investments in marketable securities, and restricted cash (in thousands):

	June 30, 2016	December 31, 2015
Cash and cash equivalents	\$ 342,436	\$ 470,775
Short-term investments	\$ 60,991	\$ —
Long-term investments	\$ 19,602	\$ —
Short-term restricted cash	\$ 13,545	\$ 13,537
Long-term restricted cash	\$ 23,131	\$ 14,686

The following table summarizes our cash flow activities (in thousands):

	Six Months Ended June 30,	
	2016	2015
Net cash used in operating activities	\$ (35,771)	\$ (10,499)
Net cash used in investing activities	\$ (105,206)	\$ (24,620)
Net cash provided by financing activities	\$ 9,966	\$ 8,633
Effect of foreign exchange rate changes on cash and cash equivalents	\$ 2,672	\$ (874)
Net decrease in cash and cash equivalents	\$ (128,339)	\$ (27,360)

Our principal sources of liquidity are our cash, cash equivalents, and investments in marketable securities. As of June 30, 2016, we had \$423.0 million of cash, cash equivalents, and investments in marketable securities, which were held primarily in cash deposits, money market funds, U.S. government and agency securities, commercial paper, and corporate bonds. We consider all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Our investments in marketable securities are classified as available-for-sale. In November 2015, we completed our initial public offering in which we received total net proceeds of \$245.7 million after deducting underwriting discounts and commissions of \$14.7 million and other offering expenses of \$6.9 million. Prior to our initial public offering, our principal source of liquidity was private sales of convertible preferred stock with total cash proceeds to us of \$544.9 million.

In addition, we have a revolving secured credit facility that matures in November 2020. To date, no funds have been drawn under the credit facility, with \$375.0 million remaining available. Loans under the credit facility bear interest at our option of (i) a base rate based on the highest of the prime rate, the federal funds rate plus 0.50%, and an adjusted LIBOR rate for a one-month interest period, in each case plus a margin ranging from 0.00% to 1.00%, or (ii) an adjusted LIBOR rate plus a margin ranging from 1.00% to 2.00%. This margin is determined based on our total leverage ratio for the preceding four fiscal quarters. We are obligated to pay other customary fees for a credit facility of this size and type including an annual administrative agent fee of \$0.1 million and an unused commitment fee of 0.15%. We paid \$0.3 million in unused commitment fees during the six months ended June 30, 2016.

Historically we funded a majority of our MCAs from arrangements with third parties that commit to purchase the future receivables related to these advances. As of June 30, 2016, we have fully transitioned from offering MCAs to loans. These loans are originated through a partnering bank to be purchased by us and are held for sale to third-party investors.

We believe that our existing cash and cash equivalents, marketable securities and availability under our line of credit will be sufficient to meet our working capital needs and planned capital expenditures for at least the next 12 months. From time to time, we may seek to raise additional capital through equity, equity-linked, and debt financing arrangements. We cannot be assured that any additional financing will be available to us on acceptable terms or at all.

Short-term restricted cash of \$13.5 million as of June 30, 2016 reflects pledged cash deposited into savings accounts at the financial institutions that process our sellers' payments transactions. We use the restricted cash to secure letters of credit with these financial institutions to provide collateral for liabilities arising from cash flow timing differences in the processing of these payments. We have recorded this amount as a current asset on our condensed consolidated balance sheets given the short-term nature of these cash flow timing differences and that there is no minimum time frame during which the cash must remain restricted.

Long-term restricted cash of \$23.1 million as of June 30, 2016 reflects cash deposited into money market accounts that is used as collateral pursuant to multi-year lease agreements entered into in 2012 and 2014 for our office buildings and as collateral pursuant to an agreement with the originating bank for the Company's loan product. The Company has recorded this amount as a non-current asset on the condensed consolidated balance sheets as the terms extend beyond one year.

We experience significant day-to-day fluctuations in our cash and cash equivalents, settlements receivable and customers payable, and hence working capital. These fluctuations are primarily due to:

- *Timing of period end.* For periods that end on a weekend or a bank holiday, our cash and cash equivalents, settlements receivable, and customers payable amounts typically will be more than for periods ending on a weekday, as we settle to our sellers for payment processing activity on business days; and
- *Fluctuations in daily GPV.* When daily GPV increases, our cash and cash equivalents, settlement receivable, and customer payable amounts increase. Typically our cash, cash equivalents, settlements receivable, and customers payable balances at period end represent one to four days of receivables and disbursements to be made in the subsequent period. Customer payable and settlement receivable balances typically move in tandem, as pay-out and pay-in largely occur on the same business day. However, customers payable balances will be greater in amount than settlements receivable balances due to the fact that a subset of funds are held due to unlinked bank accounts, risk holds, and chargebacks. Holidays and day-of-week may also cause significant volatility in daily GPV amounts.

### ***Cash Flows from Operating Activities***

Cash used in operating activities consisted of net loss adjusted for certain non-cash items including depreciation and amortization, share-based compensation expense, provision for transaction losses, provision for uncollectible merchant cash advances, deferred income taxes, and gain (loss) on disposal of property and equipment, as well as the effect of changes in operating assets and liabilities, including working capital.

For the six months ended June 30, 2016, cash used by operating activities was \$35.8 million, as a result of a net loss of \$124.1 million, offset by non-cash items consisting primarily of share-based compensation of \$68.1 million, provision for transaction losses of \$23.4 million, and depreciation and amortization of \$18.1 million. Additional uses of cash were from changes in operating assets and liabilities, including increases in settlements receivable of \$62.2 million, purchase of loans held for sale of \$212.7 million and charge-offs and recoveries to accrued transaction losses of \$24.5 million. This activity was offset in part by increases in customers payable of \$84.8 million, proceeds from sales and principal repayments of loans held for sale of \$183.7 million, and decreases in merchant cash advance receivable of \$15.3 million.

For the six months ended June 30, 2015, cash used by operating activities was \$10.5 million, as a result of a net loss of \$77.6 million, offset in part by non-cash items consisting primarily of share-based compensation expense of \$28.7 million, provision for transaction losses of \$21.6 million, and depreciation and amortization of \$12.0 million. Additional uses of cash were from changes in our operating assets and liabilities, including an increase in settlements receivable of \$56.3 million and charge-offs and recoveries to accrued transactions of \$14.2 million, offset by increases in customers payable of \$67.3 million and other noncurrent liabilities of \$7.4 million.

### ***Cash Flows from Investing Activities***

Cash flows used in investing activities primarily relate to capital expenditures to support our growth, investments in marketable securities, changes in restricted cash, and business acquisitions.

For the six months ended June 30, 2016, cash used in investing activities was \$105.2 million, as a result of the purchase of marketable securities of \$102.2 million, offset in part by proceeds from maturities and sales of marketable securities of \$21.7 million. Additional uses of cash were as a result of the purchase of property and equipment of \$15.8 million and an increase in restricted cash of \$8.5 million.

For the six months ended June 30, 2015, cash used in investing activities was \$24.6 million as a result of the purchase of property and equipment of \$20.8 million and business acquisitions of \$3.8 million.

### ***Cash Flows from Financing Activities***

For the six months ended June 30, 2016, cash provided by financing activities was \$10.0 million as a result of proceeds from issuances of common stock from the exercise of options and employee stock purchase plan of \$15.5 million, offset by payments in offering costs related to our initial public offering of \$5.5 million.

For the six months ended June 30, 2015, cash provided by financing activities was \$8.6 million as a result of proceeds from the exercise of stock options.

**Contractual Obligations and Commitments**

There were no material changes in our commitments under contractual obligations, except for scheduled payments from the ongoing business, as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015 .

***Off-Balance Sheet Arrangements***

We do not have any off-balance sheet arrangements during the periods presented.

## **Critical Accounting Policies and Estimates**

Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015 .

Our critical accounting policies have not materially changed during the six months ended June 30, 2016 . Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with GAAP. GAAP requires us to make certain estimates and judgments that affect the amounts reported in our financial statements. We base our estimates on historical experience, anticipated future trends, and other assumptions we believe to be reasonable under the circumstances. Because these accounting policies require significant judgment, our actual results may differ materially from our estimates.

We believe the assumptions and estimates associated with revenue recognition, accrued transaction losses, provision for uncollectible receivables related to MCAs, valuation of loans held for sale, business combinations, goodwill and intangible assets, income taxes, and share-based compensation to have the greatest potential effect on our consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates.

## **Recent Accounting Pronouncements**

See “Recently Issued Accounting Standards” described in Note 1 of the Notes to the Condensed Consolidated Financial Statements.

## **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We have operations both within the United States and globally, and we are exposed to market risks in the ordinary course of our business, including the effects of interest rate changes and foreign currency fluctuations. Information relating to quantitative and qualitative disclosures about these market risks is described below.

### ***Interest Rate Sensitivity***

Our cash and cash equivalents, and marketable securities as of June 30, 2016 , were held primarily in cash deposits, money market funds, U.S. government and agency securities, commercial paper, and corporate bonds. The fair value of our cash, cash equivalents, and marketable securities would not be significantly affected by either an increase or decrease in interest rates due mainly to the short-term nature of a majority of these instruments. Additionally, we have the ability and the intent to hold these instruments until maturity, which further reduces our risk. Any future borrowings incurred under our credit facility would accrue interest at a floating rate based on a formula tied to certain market rates at the time of incurrence (as described above). A hypothetical 100 basis point increase or decrease in interest rates would not have a material effect on our financial results.

### ***Foreign Currency Risk***

Most of our revenue is earned in U.S. dollars, and therefore our revenue is not currently subject to significant foreign currency risk. Our foreign operations are denominated in the currencies of the countries in which our operations are located, and may be subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Japanese Yen, Canadian Dollar, and Australian Dollar. Fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our statement of operations. A 10% increase or decrease in current exchange rates would not have a material impact on our financial results.

## **Item 4. Controls and Procedures**

### ***Evaluation of Disclosure Controls and Procedures***

As of the end of the period covered by this Quarterly Report on Form 10-Q, our management, with the participation of the Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based upon that evaluation, the Chief Executive Officer and Chief Financial

Officer concluded that, as of June 30, 2016, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act were recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that information required to be disclosed by us in the reports we file under the Exchange Act (according to Rule 13(a)-15(e)) is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

***Changes in Internal Control over Financial Reporting***

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## Part II—Other Information

### Item 1. Legal Proceedings

We are currently a party to, and may in the future be involved in, various litigation matters (including intellectual property litigation), legal claims, and government investigations.

Notably, we were involved in legal proceedings with Robert E. Morley and REM Holdings 3, LLC (REM), which included disputes over certain patents and over Mr. Morley's early involvement in the business enterprise that became Square. On December 1, 2010, we, along with our co-founder Jim McKelvey, filed a complaint (2010 Complaint) in the United States District Court for the Eastern District of Missouri to, among other things, add Mr. McKelvey as a named inventor of certain patents of which Mr. Morley was named the sole inventor. REM counterclaimed, alleging infringement by Square of the patents. On January 30, 2014, Mr. Morley and REM filed a complaint against Square, Jack Dorsey, and Mr. McKelvey, in the same Court, alleging that the formation of Square and the development of our card reader and decoding technologies constituted, among other things, breach of an alleged joint venture, fraud, negligent misrepresentation, civil conspiracy, unjust enrichment, and misappropriation of trade secrets, as well as other related claims (2014 Complaint), and sought a judgment and order that Square, Mr. Dorsey, and Mr. McKelvey held ownership of Square in constructive trust for Mr. Morley, as well as a variety of additional damages, injunctive relief, royalties, and correction of inventorship of certain of our patents. The Court consolidated the 2014 Complaint with the 2010 Complaint (collectively, the Complaints) on July 16, 2014.

On June 8, 2016, a final, definitive settlement agreement (Settlement Agreement) resolving the Complaints was entered into by Mr. Morley, REM, Mr. Dorsey, Mr. McKelvey, and Square. The Settlement Agreement required an aggregate total payment of \$50 million to plaintiffs, including meaningful contributions by Mr. Dorsey and Mr. McKelvey. Square made a payment of \$48 million to plaintiffs and met its obligations under the Settlement Agreement. On June 17, 2016, the Court entered an Order dismissing the Complaints in their entirety, with prejudice.

Additionally, we are involved in a class action lawsuit concerning independent contractors in connection with our Caviar business. On March 19, 2015, Jeffrey Levin, on behalf of a putative nationwide class, filed a lawsuit in the Northern District of California against our wholly owned subsidiary, Caviar, Inc., which, as amended, alleges that Caviar misclassified Mr. Levin and other similarly situated couriers as independent contractors and, in doing so, violated various provisions of the California Labor Code and California Business and Professions Code by requiring them to pay various business expenses that should have been borne by Caviar. The Court compelled arbitration of Mr. Levin's individual claims on November 16, 2015 and dismissed the lawsuit in its entirety with prejudice on May 2, 2016. On June 1, 2016, Mr. Levin filed a Notice of Appeal of the Court's order compelling arbitration. Mr. Levin also sought an award of penalties pursuant to the Labor Code Private Attorneys General Act of 2004 (PAGA). The parties stipulated that Mr. Levin would no longer pursue this PAGA claim, and this claim is instead being pursued by a different courier.

In addition, from time to time, we are involved in various other litigation matters and disputes arising in the ordinary course of business. While it is not feasible to predict or determine the ultimate outcome of these matters, we believe that none of our current legal proceedings will have a material adverse effect on our business.

### Item 1A. Risk Factors

*Investing in our securities involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information in this Quarterly Report on Form 10-Q, including the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes, before making any investment decision with respect to our securities. The risks and uncertainties described below may not be the only ones we face. If any of the risks actually occur, our business could be materially and adversely affected. In that event, the market price of our Class A common stock could decline, and you could lose part or all of your investment.*

*The following description of risk factors includes any material changes to, and supersedes the description of, risk factors associated with the Company's business previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 under the heading "Risk Factors."*

## Risks Related to Our Business and Our Industry

***Our business depends on a strong and trusted brand, and any failure to maintain, protect, and enhance our brand would hurt our business.***

We have developed a strong and trusted brand that has contributed significantly to the success of our business. Our brand is predicated on the idea that sellers and buyers will trust us and find value in building and growing their businesses with our products and services. Maintaining, protecting, and enhancing our brand is critical to expanding our base of sellers, buyers, and other third-party partners, as well as increasing engagement with our products and services. This will depend largely on our ability to maintain trust, be a technology leader, and continue to provide high-quality and secure products and services. Any negative publicity about our industry or our company, the quality and reliability of our products and services, our risk management processes, changes to our products and services, our ability to effectively manage and resolve seller and buyer complaints, our privacy and security practices, litigation, regulatory activity, and the experience of sellers and buyers with our products or services, could adversely affect our reputation and the confidence in and use of our products and services. Harm to our brand can arise from many sources, including failure by us or our partners to satisfy expectations of service and quality; inadequate protection of sensitive information; compliance failures and claims; litigation and other claims; employee misconduct; and misconduct by our partners, service providers, or other counterparties. If we do not successfully maintain a strong and trusted brand, our business could be materially and adversely affected.

***Our growth may not be sustainable and depends on our ability to retain existing sellers, attract new sellers, and increase sales to both new and existing sellers .***

Our total net revenue grew from \$552.4 million in 2013 to \$850.2 million in 2014 and to \$1,267.1 million in 2015. During the six months ended June 30, 2015 and 2016, our total net revenue grew from \$560.6 million to \$817.8 million , respectively. We expect our rate of revenue growth will decline, and it may decline more quickly than we expect for a variety of reasons, including the risks described in this Quarterly Report on Form 10-Q. Starbucks has announced that it will transition to another payment processor and will cease using our payment processing services altogether. As a result, our total net revenue may decrease meaningfully going forward. Our sellers and other users of our services have no obligation to continue to use our services, and we cannot assure you that they will. We generally do not have long-term contracts with our sellers, and the difficulty and costs associated with switching to a competitor may not be significant for many of our services. Our sellers' payment processing activity with us may decrease for a variety of reasons, including sellers' level of satisfaction with our products and services, the effectiveness of our support services, our pricing, the pricing and quality of competing products or services, the effects of global economic conditions, or reductions in our sellers' customer spending levels. In addition, the growth of our business depends in part on existing sellers expanding their use of our products and services. If we are unable to encourage sellers to broaden their use of our services, our growth may slow or stop, and our business may be materially and adversely affected. The growth of our business also depends on our ability to attract new sellers, to encourage larger sellers to use our products and services, and to introduce successful new products and services. We have invested in new products and services, including Square Cash and Caviar, and will continue to invest in new products and services, but if those products and services fail to be successful, our growth may slow or decline.

***Our business has generated net losses, and we intend to continue to invest substantially in our business. Thus, we may not be able to achieve or maintain profitability.***

We generated net losses of \$179.8 million, \$154.1 million, and \$104.5 million for the years ended December 31, 2015, 2014, and 2013, respectively. During the six months ended June 30, 2016 and 2015 , we generated net losses of \$124.1 million and \$77.6 million , respectively.

As of June 30, 2016 , we had an accumulated deficit of \$731.7 million . We intend to continue to make significant investments in our business, including with respect to our employee base; sales and marketing, including expenses relating to increased direct marketing efforts, referral programs, and free hardware and subsidized services; development of new products, services, and features; expansion of office space and other infrastructure; expansion of international operations; and general administration, including legal, finance, and other compliance expenses related to being a public company. If the costs associated with acquiring and supporting new or larger sellers materially rise in the future, including the fees we pay to third parties to advertise our products and services, our expenses may rise significantly. In addition, increases in our seller base could cause us to incur increased losses because costs associated with new sellers are generally incurred up front, while revenue is recognized thereafter as sellers utilize our services. If we are unable to generate adequate revenue growth and manage our expenses, we may continue to incur significant losses and may not achieve or maintain profitability.

We frequently make decisions that may reduce our short-term operating results if we believe those decisions will improve the experiences of our sellers, their customers, and other users of our products and services, which we believe will improve our operating results over the long term. These decisions may not be consistent with the expectations of investors and may not produce the long-term benefits that we expect, in which case our business may be materially and adversely affected.

***We, our sellers, our partners, and others who use our services obtain and process a large amount of sensitive data. Any real or perceived improper use of, disclosure of, or access to such data could harm our reputation as a trusted brand, as well as have a material and adverse effect on our business.***

We, our sellers, and our partners, including third-party data centers that we use, obtain and process large amounts of sensitive data, including data related to our sellers, their customers, and their transactions. This is also true of other users of our services, such as Square Cash and Square Payroll. We face risks, including to our reputation as a trusted brand, in the handling and protection of this data, and these risks will increase as our business continues to expand. Our operations involve the storage and transmission of sensitive information of individuals using our services, including their names, addresses, social security numbers, payment card numbers and expiration dates, bank account information, and data regarding the performance of our sellers' businesses. We also obtain sensitive information regarding our sellers' customers, including their contact information, payment card numbers and expiration dates, and purchase histories. We have administrative, technical, and physical security measures in place, and we have policies and procedures in place to contractually require third parties to whom we transfer data to implement and maintain appropriate security measures. However, if our security measures or those of the previously mentioned third parties are inadequate or are breached as a result of third-party action, employee error, malfeasance, malware, phishing, hacking attacks, system error, trickery, or otherwise, and, as a result, someone obtains unauthorized access to sensitive information, including personally identifiable information, on our systems or our partners' systems, our reputation and business could be damaged. If the sensitive information is lost or improperly disclosed or threatened to be disclosed, we could incur significant liability and be subject to regulatory scrutiny and penalties, including costs associated with remediation. Under payment card rules and our contracts with our card processors, if there is a breach of payment card information that we store or that is stored by our sellers or other third parties with which we do business, we could be liable to the payment card issuing banks for their cost of issuing new cards and other related expenses. Additionally, if our own confidential business information were improperly disclosed, our business could be materially and adversely affected. A core aspect of our business is the reliability and security of our payments platform. Any perceived or actual breach of security could have a significant impact on our reputation as a trusted brand, cause us to lose existing sellers, prevent us from obtaining new sellers, require us to expend significant funds to remedy problems caused by breaches and to implement measures to prevent further breaches, and expose us to legal risk and potential liability. Any security breach at a company providing services to us, our sellers, or other users of our services could have similar effects.

***Our risk management efforts may not be effective, which could expose us to losses and liability and otherwise harm our business.***

We offer payments services and other products and services to a large number of customers, and we are responsible for vetting and monitoring these customers and determining whether the transactions we process for them are legitimate. When our products and services are used to process illegitimate transactions, and we settle those funds to sellers and are unable to recover them, we suffer losses and liability. These types of illegitimate transactions can also expose us to governmental and regulatory sanctions. The highly automated nature of, and liquidity offered by, our payments services make us a target for illegal or improper uses, including fraudulent or illegal sales of goods or services, money laundering, and terrorist financing. Identity thieves and those committing fraud using stolen or fabricated credit card or bank account numbers, or other deceptive or malicious practices, potentially can steal significant amounts of money from businesses like ours. In configuring our payments services, we face an inherent trade-off between security and customer convenience. Our risk management policies, procedures, techniques, and processes may not be sufficient to identify all of the risks to which we are exposed, to enable us to mitigate the risks we have identified, or to identify additional risks to which we may become subject in the future. As a greater number of larger sellers use our services, our exposure to material risk losses from a single seller, or from a small number of sellers, will increase. For example, in the year ended December 31, 2015, we recorded a loss of approximately \$4.4 million related to fraud by a single seller using our payments services. In addition, when we introduce new services, focus on new business types, or begin to operate in markets where we have a limited history of fraud loss, we may be less able to forecast and reserve accurately for those losses. Furthermore, if our risk management policies and processes contain errors or are otherwise ineffective, we may suffer large financial losses, we may be subject to civil and criminal liability, and our business may be materially and adversely affected.

We are currently, and will continue to be, exposed to risks associated with chargebacks and refunds in connection with payment card fraud or relating to the goods or services provided by our sellers. In the event that a billing dispute between a cardholder and a seller is not resolved in favor of the seller, including in situations where the seller engaged in fraud, the transaction is typically "charged back" to the seller and the purchase price is credited or otherwise refunded to the cardholder. If we are

unable to collect chargebacks or refunds from the seller's account, or if the seller refuses to or is unable to reimburse us for chargebacks or refunds due to closure, bankruptcy, or other reasons, we may bear the loss for the amounts paid to the cardholder. Since October 2015, businesses that cannot process EMV chip cards are held financially responsible for certain fraudulent transactions conducted using chip-enabled cards. This has shifted an increased amount of the risk for certain fraudulent transactions from the issuing banks to these sellers, which has resulted in our having to seek an increased level of reimbursement for chargebacks from our sellers that do not deploy EMV-compliant card readers. Not all of the readers we offer to merchants are EMV-compliant. Our financial results would be adversely affected to the extent sellers do not fully reimburse us for the related chargebacks. We do not collect and maintain reserves from our sellers to cover these potential losses, and for customer relations purposes we sometimes decline to seek reimbursement for certain chargebacks. The risk of chargebacks is typically greater with those of our sellers that promise future delivery of goods and services, which we allow on our service. If we are unable to maintain our losses from chargebacks at acceptable levels, the payment card networks could fine us, increase our transaction fees, or terminate our ability to process payment cards. Any increase in our transaction fees could damage our business, and if we were unable to accept payment cards, our business would be materially and adversely affected.

***We derive substantially all of our revenue from payments services. Our efforts to expand our product portfolio and market reach may not succeed and may reduce our revenue growth.***

We derive substantially all of our revenue from transaction fees we collect in connection with payments services. While we intend to continue to broaden the scope of products and services we offer, we may not be successful in deriving any significant revenue from these products and services. Failure to broaden the scope of products and services that are attractive may inhibit the growth of repeat business and harm our business, as well as increase the vulnerability of our core payments business to competitors offering a full suite of products and services. Furthermore, we may have limited or no experience in our newer markets. For example, we cannot assure you that any financial services and marketing services will be widely used. These offerings may present new and difficult technological, operational, and other challenges, and if we experience service disruptions, failures, or other issues, our business may be materially and adversely affected. Our newer activities may not recoup our investments in a timely manner or at all. If any of this were to occur, it could damage our reputation, limit our growth, and materially and adversely affect our business.

***Our success depends on our ability to develop products and services to address the rapidly evolving market for payments and POS, financial, and marketing services, and, if we are not able to implement successful enhancements and new features for our products and services, our business could be materially and adversely affected.***

We expect that new services and technologies applicable to the industries in which we operate will continue to emerge and evolve. Rapid and significant technological changes continue to confront the industries in which we operate, including developments in ecommerce, mobile commerce, and proximity payment devices (including contactless payments via NFC technology). Other potential changes are on the horizon as well, such as developments in crypto-currencies and in tokenization, which replaces sensitive data (e.g., payment card information) with symbols (tokens) to keep the data safe in the event that it ends up in the wrong hands. Similarly, there is rapid innovation in the provision of other products and services to businesses, including in financial services and marketing services.

These new services and technologies may be superior to, impair, or render obsolete the products and services we currently offer or the technologies we currently use to provide them. Incorporating new technologies into our products and services may require substantial expenditures and take considerable time, and we may not be successful in realizing a return on these development efforts in a timely manner or at all. There can be no assurance that any new products or services we develop and offer to our sellers will achieve significant commercial acceptance. For example, in 2011, we introduced Square Wallet, a mobile payment app, and discontinued it in May 2014. Our ability to develop new products and services may be inhibited by industry-wide standards, payment card networks, laws and regulations, resistance to change from buyers or sellers, or third parties' intellectual property rights. Our success will depend on our ability to develop new technologies and to adapt to technological changes and evolving industry standards. If we are unable to provide enhancements and new features for our products and services or to develop new products and services that achieve market acceptance or that keep pace with rapid technological developments and evolving industry standards, our business would be materially and adversely affected.

The success of enhancements, new features, and products and services depends on several factors, including the timely completion, introduction, and market acceptance of the enhancements or new features or services. We often rely not only on our own initiatives and innovations, but also on third parties, including some of our competitors, for the development of and access to new technologies. For example, in 2015 we introduced a chip and contactless reader combining EMV and NFC technologies, but we do not yet know whether this reader will be supported by other important industry participants or gain wide market acceptance. Failure to accurately predict or to respond effectively to developments in our industry may significantly impair our business.

In addition, because our products and services are designed to operate with a variety of systems, infrastructures, and devices, we need to continuously modify and enhance our products and services to keep pace with changes in mobile, software, communication, and database technologies. We may not be successful in either developing these modifications and enhancements or in bringing them to market in a timely and cost-effective manner. Any failure of our products and services to continue to operate effectively with third-party infrastructures and technologies could reduce the demand for our products and services, result in dissatisfaction of our sellers or their customers, and materially and adversely affect our business.

***Substantial and increasingly intense competition in our industry may harm our business.***

We compete in markets characterized by vigorous competition, changing technology, changing seller and buyer needs, evolving industry standards, and frequent introductions of new products and services. We expect competition to intensify in the future as existing and new competitors introduce new services or enhance existing services. We compete against many companies to attract customers, and some of these companies have greater financial resources and substantially larger bases of customers than we do, which may provide them with significant competitive advantages. These companies may devote greater resources to the development, promotion, and sale of products and services, and they may offer lower prices or more effectively introduce their own innovative products and services that adversely impact our growth. Mergers and acquisitions by these companies may lead to even larger competitors with more resources. We also expect new entrants to offer competitive products and services. Certain sellers have long-standing exclusive, or nearly exclusive, relationships with our competitors to accept payment cards and other services that we offer. These relationships may make it difficult or cost-prohibitive for us to conduct material amounts of business with them. Competing services tied to established brands may engender greater confidence in the safety and efficacy of their services. If we are unable to differentiate ourselves from and successfully compete with our competitors, our business will be materially and adversely affected.

We may also face pricing pressures from competitors. Some potential competitors are able to offer lower prices to sellers for similar services by cross-subsidizing their payments services through other services they offer. Such competition may result in the need for us to alter the pricing we offer to our sellers and could reduce our gross profit. In addition, as we grow, sellers may demand more customized and favorable pricing from us, and competitive pressures may require us to agree to such pricing, further reducing our gross profit. We currently negotiate pricing discounts and other incentive arrangements with certain large sellers to increase acceptance and usage of our products and services. If we continue this practice and if an increasing proportion of our sellers are large sellers, we may have to increase the discounts or incentives we provide, which could also reduce our gross profit.

***We are dependent on payment card networks and acquiring processors, and any changes to their rules or practices could harm our business.***

Our business depends on our ability to accept credit and debit cards, which ability is provided by the payment card networks, including Visa, MasterCard, American Express, and Discover. Other than American Express, we do not directly access the payment card networks that enable our acceptance of payment cards. As a result, we must rely on banks and acquiring processors to process transactions on our behalf. Our acquiring processor agreements have terms ranging from two to four years. Our three largest such agreements expire between the first quarter of 2017 and the first quarter of 2020, and two of these agreements provide for automatic renewal. These banks and acquiring processors may fail or refuse to process transactions adequately, may breach their agreements with us, or may refuse to renew these agreements on commercially reasonable terms. They might also take actions that degrade the functionality of our services, impose additional costs or requirements on us, or give preferential treatment to competitive services, including their own services. If we are unsuccessful in establishing or maintaining mutually beneficial relationships with these payment card networks, banks, and acquiring processors, our business may be harmed.

The payment card networks and our acquiring processors require us to comply with payment card network operating rules, including special operating rules that apply to us as a “payment service provider” providing payment processing services to merchants. The payment card networks set these network rules and have discretion to interpret them and change them. Any changes to or interpretations of the network rules that are inconsistent with the way we or our acquiring processors currently operate may require us to make changes to our business that could be costly or difficult to implement. If we fail to make such changes or otherwise resolve the issue with the payment card networks, the networks could fine us or prohibit us from processing payment cards. In addition, violations of the network rules or any failure to maintain good relationships with the payment card networks could impact our ability to receive incentives from them, could increase our costs, or could otherwise harm our business. If we were unable to accept payment cards or were limited in our ability to do so, our business would be materially and adversely affected.

We are required to pay interchange fees and assessments to the payment card networks, as well as fees to our acquiring processors, to process transactions. From time to time, payment card networks have increased, and may increase in the future, the interchange fees and assessments that they charge for each transaction processed using their networks. In addition, our acquiring processors and payment card networks may refuse to renew our agreements with them on commercially reasonable terms. Interchange fees or assessments are also subject to change from time to time due to government regulation. Because we generally charge our sellers a flat rate for our payments services, rather than passing through interchange fees and assessments to our sellers directly, any increase or decrease in interchange fees or assessments or in the fees we pay to our acquiring processors could make our pricing look less competitive, lead us to change our pricing model, or adversely affect our margins.

We could be, and in the past have been, subject to penalties from payment card networks if we fail to detect that sellers are engaging in activities that are illegal, contrary to the payment card network operating rules, or considered “high risk.” We must either prevent high-risk sellers from using our products and services or register such sellers with the payment card networks and conduct additional monitoring with respect to such sellers. Although the amount of these penalties has not been material to date, any additional penalties in the future could become material and could result in termination of our ability to accept payment cards or could require changes in our process for registering new sellers. This could materially and adversely affect our business.

***Our quarterly results of operations and operating metrics fluctuate significantly and are unpredictable and subject to seasonality, which could result in the trading price of our Class A common stock being unpredictable or declining.***

Our quarterly results of operations may vary significantly and are not necessarily an indication of future performance. These fluctuations may be due to a variety of factors, some of which are outside of our control and may not fully reflect the underlying performance of our business. Our limited operating history combined with the rapidly evolving markets in which we operate also contributes to these fluctuations. Fluctuations in quarterly results may materially and adversely affect the predictability of our business and the price of our Class A common stock.

Factors that may cause fluctuations in our quarterly financial results include our ability to attract and retain new customers; the timing, effectiveness, and costs of expansion and upgrades of our systems and infrastructure, as well as the success of those expansions and upgrades; the outcomes of legal proceedings and claims; our ability to maintain or increase revenue, gross margins, and operating margins; our ability to continue introducing new services and to continue convincing customers to adopt additional offerings; increases in and timing of expenses that we may incur to grow and expand our operations and to remain competitive; period-to-period volatility related to fraud and risk losses; system failures resulting in the inaccessibility of our products and services; changes in the regulatory environment, including with respect to security, privacy, or enforcement of laws and regulations by regulators, including fines, orders, or consent decrees; changes in global business or macroeconomic conditions; unusual weather conditions; general retail buying patterns; and the other risks described in this Quarterly Report on Form 10-Q.

***We depend on key management, as well as our experienced and capable employees, and any failure to attract, motivate, and retain our employees could harm our ability to maintain and grow our business.***

Our future success is significantly dependent upon the continued service of our executives and other key employees. If we lose the services of any member of management or any key personnel, we may not be able to locate a suitable or qualified replacement, and we may incur additional expenses to recruit and train a replacement, which could severely disrupt our business and growth. Jack Dorsey, our co-founder, President, and Chief Executive Officer, also serves as Chief Executive Officer of Twitter, Inc. This may at times adversely affect his ability to devote time, attention, and effort to Square.

To maintain and grow our business, we will need to identify, hire, develop, motivate, and retain highly skilled employees. Identifying, recruiting, training, integrating, and retaining qualified individuals requires significant time, expense, and attention. In addition, from time to time, there may be changes in our management team that may be disruptive to our business. If our management team, including any new hires that we make, fails to work together effectively and to execute our plans and strategies on a timely basis, our business could be harmed. Competition for highly skilled personnel is intense, particularly in the San Francisco Bay Area where our headquarters are located. We may need to invest significant amounts of cash and equity to attract and retain new employees, and we may never realize returns on these investments. If we are not able to add and retain employees effectively, our ability to achieve our strategic objectives will be adversely affected, and our business and growth prospects will be harmed.

In addition, a number of employees, including many members of management, may be able to receive significant proceeds from sales of our equity in the public markets. As a result, it may be difficult for us to continue to retain and motivate these employees, and, if we are unable to do so, our business may be materially and adversely affected.

***If we fail to manage growth effectively, our business could be harmed.***

In order to manage our growth effectively, we must continue to strengthen our existing infrastructure, develop and improve our internal controls, create and improve our reporting systems, and timely address issues as they arise. These efforts may require substantial financial expenditures, commitments of resources, developments of our processes, and other investments and innovations. Furthermore, we encourage employees to be bold and to quickly develop and launch new features for our products and services. As we grow, we may not be able to execute as quickly as a smaller, more efficient organization. If we do not successfully manage our growth, our business will suffer.

***A deterioration of general macroeconomic conditions could materially and adversely affect our business and financial results.***

Our performance is subject to economic conditions and their impact on levels of spending by businesses and their customers. Most of the sellers that use our services are small businesses, many of which are in the early stages of their development, and these businesses may be disproportionately adversely affected by economic downturns and may fail at a higher rate than larger or more established businesses. If spending by their customers declines, these businesses would experience reduced sales and process fewer payments with us or, if they cease to operate, stop using our products and services altogether. Small businesses frequently have limited budgets and limited access to capital, and they may choose to allocate their spending to items other than our financial or marketing services, especially in times of economic uncertainty or in recessions. In addition, if more of our sellers cease to operate, this may have an adverse impact not only on the growth of our payments services but also on our transaction and advance loss rates, and the success of our other services. For example, if businesses processing payments with us receive chargebacks after they cease to operate, we may incur additional losses. Additionally, the growth in the number of sellers qualifying for Square Capital may slow or the receivables related to the Square Capital MCAs or business loans may be paid more slowly, or not at all. Furthermore, our investment portfolio, which includes U.S. government and corporate securities, is subject to general credit, liquidity, market, and interest rate risks, which may be exacerbated by certain events that affect the global financial markets. If global credit and equity markets decline for extended periods, or if there is a downgrade of the securities within our portfolio, the investment portfolio may be adversely affected and we could determine that our investments have experienced an other-than-temporary decline in fair value, requiring impairment charges that could adversely affect our financial results. Thus, if general macroeconomic conditions deteriorate, our business and financial results could be materially and adversely affected.

***If we are unable to maintain, promote, and grow our brand through effective marketing and communications strategies, our brand and business may be harmed.***

We believe that maintaining and promoting our brand in a cost-effective manner is critical to achieving widespread acceptance of our products and services and to expanding our base of customers. Maintaining and promoting our brand will depend largely on our ability to continue to provide useful, reliable, and innovative products and services, which we may not do successfully. We may introduce, or make changes to, features, products, services, or terms of service that customers do not like, which may materially and adversely affect our brand. Our brand promotion activities may not generate customer awareness or increase revenue, and even if they do, any increase in revenue may not offset the expenses we incur in building our brand. If we fail to successfully promote and maintain our brand or if we incur excessive expenses in this effort, our business could be materially and adversely affected.

The introduction and promotion of new services, as well as the promotion of existing services, may be partly dependent on our visibility on third-party advertising platforms, such as Google, Twitter, or Facebook. Changes in the way these platforms operate or changes in their advertising prices or other terms could make the maintenance and promotion of our products and services and our brand more expensive or more difficult. If we are unable to market and promote our brand on third-party platforms effectively, our ability to acquire new sellers would be materially harmed.

We have received a significant amount of media coverage since our formation. We have also been from time to time in the past, and may in the future be, the target of incomplete, inaccurate, and misleading or false statements about our company, our business, and our products and services that could damage our brand and materially deter people from adopting our services. Negative publicity about our company or our management, including about our product quality and reliability, changes to our products and services, privacy and security practices, litigation, regulatory enforcement, and other actions, as well as the actions of our customers and other users of our services, even if inaccurate, could cause a loss of confidence in us. Our ability to respond to negative statements about us may be limited by legal prohibitions on permissible public communications by us during future periods.

***Expanding our business globally could subject us to new challenges and risks.***

We currently offer our services and products in multiple countries and plan to continue expanding our business further globally. Additional expansion, whether in our existing or new global markets, will require additional resources and controls,

and offering our services in new geographic regions often requires substantial expenditures and takes considerable time, and we may not be successful enough in these new geographies to recoup our investments in a timely manner or at all. Such expansion could also subject our business to substantial risks, including:

- difficulty in attracting a sufficient number of sellers;
- failure to anticipate competitive conditions;
- conformity with applicable business customs, including translation into foreign languages and associated expenses;
- increased costs and difficulty in protecting intellectual property and sensitive data;
- changes to the way we do business as compared with our current operations or a lack of acceptance of our products and services;
- the ability to support and integrate with local third-party service providers;
- competition with service providers that have greater experience in the local markets than we do;
- difficulties in staffing and managing foreign operations in an environment of diverse culture, laws and customs, challenges caused by distance, language, and cultural differences, and the increased travel, infrastructure and legal and compliance costs associated with global operations;
- compliance with multiple, potentially conflicting and changing governmental laws and regulations, including with respect to data privacy and security;
- compliance with U.S. and foreign anti-bribery laws;
- potential tariffs, sanctions, or other trade barriers including fines;
- exchange rate risk;
- compliance with potentially conflicting and changing laws of taxing jurisdictions where we conduct business and applicable U.S. tax laws, the complexity and adverse consequences of such tax laws and potentially adverse tax consequences due to changes in such tax laws; and
- regional economic and political instability.

As a result of these risks, our efforts to expand our global operations may not be successful, which could limit our ability to grow our business.

***We rely on third parties and their systems for a variety of services, including to process transaction data and settle funds to us and our sellers, and these third parties' failure to perform these services adequately could materially and adversely affect our business.***

To provide our payments solution and other products and services, we rely on third parties that we do not control, such as the payment card networks, our acquiring processors, the payment card issuers, various financial institution partners, systems like the Federal Reserve Automated Clearing House, and other partners. We rely on these third parties for a variety of services, including to transmit transaction data, process chargebacks and refunds, settle funds to our sellers, and to provide information and other elements of our services. For example, we currently rely on three acquiring processors in the United States and two for each of Canada, Japan and Australia. While we believe there are other acquiring processors that could meet our needs, adding or transitioning to new providers may disrupt our business and increase our costs. In the event these third parties fail to provide these services adequately, including as a result of errors in their systems or events beyond their control, or refuse to provide these services on terms acceptable to us or at all, and we are not able to find suitable alternatives, our business may be materially and adversely affected.

***Our services must integrate with a variety of operating systems, and the hardware that enables merchants to accept payment cards must interoperate with third-party mobile devices utilizing those operating systems. If we are unable to ensure that our***

*services or hardware interoperate with such operating systems and devices, our business may be materially and adversely affected.*

We are dependent on the ability of our products and services to integrate with a variety of operating systems, as well as web browsers that we do not control. Any changes in these systems that degrade the functionality of our products and services, impose additional costs or requirements on us, or give preferential treatment to competitive services, including their own services, could materially and adversely affect usage of our products and services. In addition, we rely on app marketplaces, such as the Apple App Store and Google Play, to drive downloads of our mobile app. Apple, Google, or other operators of app marketplaces regularly make changes to their marketplaces, and those changes may make access to our products and services more difficult. In the event that it is difficult for our sellers to access and use our products and services, our business may be materially and adversely affected.

In addition, our hardware interoperates with mobile devices developed by third parties. For example, the current version of Square Reader plugs into the audio jack of most smartphones and tablets. Changes in the design of these mobile devices may limit the interoperability of our hardware with such devices and require modifications to our hardware. If we are unable to ensure that our hardware continues to interoperate effectively with such devices, or if doing so is costly, our business may be materially and adversely affected.

***Many of our key components are procured from a single or limited number of suppliers. Thus, we are at risk of shortage, price increases, changes, delay, or discontinuation of key components, which could disrupt and materially and adversely affect our business.***

Many of the key components used to manufacture our products, such as the custom parts of Square Reader for magnetic stripe cards, including its magnetic stripe-reading element, its plastic cover, and its application-specific integrated circuits, come from limited or single sources of supply, as do the plastic cover, connector, and security cage of Square Reader for EMV chip cards and NFC. In addition, in some cases, we rely only on one manufacturer to fabricate, test, and assemble our products. For example, a single manufacturer assembles Square Reader for magnetic stripe cards and Square Reader for EMV chip cards and NFC, as well as manufactures those products' plastic parts with custom tools that we own but that they maintain on their premises. The term of the agreement with that manufacturer initially expired on June 26, 2014, but automatically renewed and will continue to renew for consecutive one-year periods unless either party provides notice of non-renewal. In general, our contract manufacturers fabricate or procure components on our behalf, subject to certain approved procedures or supplier lists, and we do not have firm commitments from all of these manufacturers to provide all components, or to provide them in quantities and on timelines that we may require. For example, pursuant to a development and supply agreement, a component supplier provides design, development, customization, and related services for components of the magnetic stripe-reading element in some of our products. The term of the agreement will continue until September 30, 2016, at which point it will automatically renew for successive two-year terms unless either party provides notice of non-renewal. Similarly, a component provider develops certain application-specific integrated circuits for our products pursuant to our designs and specifications. The term of our agreement with this provider initially expired on March 24, 2016 but automatically renewed and will continue to renew for consecutive one-year periods unless either party provides notice of non-renewal. Due to our reliance on the components or products produced by suppliers such as these, we are subject to the risk of shortages and long lead times in the supply of certain components or products. We are still in the process of identifying alternative manufacturers for the assembly of our products and for most of the single-sourced components used in our products. In the case of off-the-shelf components, we are subject to the risk that our suppliers may discontinue or modify them or that the components may cease to be available on commercially reasonable terms. We have in the past experienced, and may in the future experience, component shortages or delays or other problems in product assembly, and the availability of these components or products may be difficult to predict. Additionally, various sources of supply-chain risk, including strikes or shutdowns at delivery ports or loss of or damage to our products while they are in transit or storage, could limit the supply of our products. In the event of a shortage or supply interruption from suppliers of these components, we may not be able to develop alternate sources quickly, cost-effectively, or at all. Any interruption or delay in component supply, any increases in component costs, or the inability to obtain these parts or components from alternate sources at acceptable prices and within a reasonable amount of time, would harm our ability to provide our products to sellers on a timely basis. This could harm our relationships with our sellers, prevent us from acquiring new sellers, and materially and adversely affect our business.

***Our business could be harmed if we are unable to accurately forecast demand for our products and to adequately manage our product inventory.***

We invest broadly in our business, and such investments are driven by our expectations of the future success of a product. Our products, such as Square Reader, often require investments with long lead times. An inability to correctly forecast the success of a particular product could harm our business. We must forecast inventory needs and expenses and place orders sufficiently in advance with our third-party suppliers and contract manufacturers based on our estimates of future demand for particular products.

Our ability to accurately forecast demand for our products could be affected by many factors, including an increase or decrease in demand for our products or for our competitors' products, unanticipated changes in general market conditions, and the change in economic conditions.

If we underestimate demand for a particular product, our contract manufacturers and suppliers may not be able to deliver sufficient quantities of that product to meet our requirements, and we may experience a shortage of that product available for sale or distribution. The shortage of a popular product could materially and adversely affect our brand, our seller relationships, and the acquisition of additional sellers. If we overestimate demand for a particular product, we may experience excess inventory levels for that product and the excess inventory may become obsolete or out-of-date. Inventory levels in excess of demand may result in inventory write-downs or write-offs and the sale of excess inventory at further discounted prices, which could negatively impact our gross profit and our business.

***Our products and services may not function as intended due to errors in our software, hardware, and systems, or due to security breaches or human error in administering these systems, which could materially and adversely affect our business.***

Our software, hardware, and systems may contain undetected errors that could have a material adverse effect on our business, particularly to the extent such errors are not detected and remedied quickly. We have from time to time found defects in our customer-facing software and hardware, internal systems, and technical integrations with third-party systems, and new errors may be introduced in the future. In addition, we provide frequent incremental releases of product and service updates and functional enhancements, which increases the possibility of errors. The electronic payments products and services we provide are designed to process complex transactions and deliver reports and other information related to those transactions, all at high volumes and processing speeds. Since customers use our services for important aspects of their businesses, any errors, defects, disruptions in services, or other performance problems with our services could hurt our reputation and damage our customers' businesses. Software and system errors, or human error, could delay or inhibit settlement of payments, result in oversettlement, cause reporting errors, or prevent us from collecting transaction fees, all of which have occurred in the past. Similarly, security breaches or errors in our hardware design or manufacture could cause product safety issues typical of consumer electronics devices. Such issues could lead to product recalls and inventory shortages, result in costly and time-consuming efforts to redesign and redistribute our products, give rise to regulatory inquiries and investigations, and result in lawsuits and other liabilities and losses, which could have a material and adverse effect on our business.

***Systems failures, interruptions, delays in service, catastrophic events, and resulting interruptions in the availability of our products or services could harm our business and our brand, and subject us to substantial liability.***

Our systems and those of our third-party data center facilities may experience service interruptions, denial-of-service and other cyber-attacks, human error, earthquakes, hurricanes, floods, fires, natural disasters, power losses, disruptions in telecommunications services, fraud, military or political conflicts, terrorist attacks and other geopolitical unrest, computer viruses, or other events. Our systems are also subject to break-ins, sabotage, and acts of vandalism. Some of our systems are not fully redundant, and our disaster-recovery planning is not sufficient for all eventualities. In addition, as a provider of payments solutions, we are subject to increased scrutiny by regulators that may require specific business continuity and disaster recovery plans and more rigorous testing of such plans. This increased scrutiny may be costly and time-consuming and may divert our resources from other business priorities.

We have experienced and will likely continue to experience denial-of-service attacks, system failures, and other events or conditions that interrupt the availability or reduce the speed or functionality of our products and services. These events have resulted and likely will result in loss of revenue. In addition, they could result in significant expense to repair or replace damaged equipment and remedy resultant data loss or corruption. A prolonged interruption in the availability or reduction in the speed or other functionality of our products or services could materially harm our reputation and business. Frequent or persistent interruptions in our products and services could cause sellers to believe that our products and services are unreliable, leading them to switch to our competitors or to avoid our products and services, and could permanently harm our reputation and business. Moreover, to the extent that any system failure or similar event results in damages to customers or their businesses, these customers could seek compensation from us for their losses, and those claims, even if unsuccessful, would likely be time-consuming and costly for us to address.

A significant natural disaster could have a material and adverse impact on our business. Our headquarters and certain of our data center facilities are located in the San Francisco Bay Area, a region known for seismic activity. Despite any precautions we may take, the occurrence of a natural disaster or other unanticipated problems at our headquarters or data centers could result in lengthy interruptions in our services or could result in related liabilities. We have implemented a disaster recovery program, which enables us to move production to a back-up data center in the event of a catastrophe.

Although this program is functional, it may prove to be inadequate, increasing the risk of interruptions in our services, which could have a material and adverse impact on our business. We do not maintain insurance sufficient to compensate us for the potentially significant losses that could result from disruptions to our services.

***Our Square Capital service is subject to additional risks relating to the availability of capital, seller receivables, and general macroeconomic conditions.***

Our Square Capital service is subject to risks in addition to those described elsewhere in this Quarterly Report on Form 10-Q. Maintaining and growing our Square Capital service is dependent on third parties to purchase the loans. If third parties fail to continue to purchase such loans or reduce the amount of future loans they purchase, then we would have to fund future loans to merchants from our own resources and might have to reduce the scale of our Square Capital service. If third parties reduce the price they are willing to pay for these loans or reduce the servicing fees they pay us in exchange for servicing the loans on their behalf, then the financial performance of Square Capital would be harmed.

Adverse changes in macroeconomic conditions could cause some Square Capital sellers to cease operating or to experience a decline in their payment processing volume, rendering us unable to obtain the receivables or repayment of loans or extending the period of time required for us to obtain such receivables or repayment of loans. Sellers are contractually obligated to use Square as their only card payment processing service until we have received the agreed-upon fixed amount of receivables or repayment of loans. To the extent a seller breaches this obligation, the seller would be liable to us for the balance of the receivables in respect of an MCA or an accelerated loan repayment. Absent a breach of the contract, our only recourse is to the business and not to any individual or other asset.

In addition, adverse changes in macroeconomic conditions could also lead to a decrease in the number of sellers suitable for Square Capital loans and strain our ability to correctly identify such sellers or manage the risk of non-payment or fraud. Similarly, if we fail to correctly predict or price the loans of sellers utilizing our Square Capital service, our business may be materially and adversely affected.

We have partnered with a partner bank on loans. If the partner bank ceases to partner with us, ceases to abide by the terms of our agreement with them, or cannot partner with us on commercially reasonable terms, and we are not able to find suitable alternatives and/or obtain licenses to make loans ourselves, our Square Capital service may be materially and adversely affected.

We intend to continue to explore other models and structures for our Square Capital service, including other forms of credit. Some of those models or structures would require, or be deemed to require, additional procedures, partnerships, licenses, or capabilities that we have not yet obtained or developed. Should we fail to expand and evolve our Square Capital service in this manner, or should these new models or structures, or new regulations or interpretations of existing regulations, impose requirements on us that are impractical or that we cannot satisfy, the future growth and success of the Square Capital service may be materially and adversely affected.

***Our business is subject to extensive regulation and oversight in a variety of areas, all of which are subject to change and uncertain interpretation.***

We are subject to a wide variety of local, state, federal, and international laws, regulations, and industry standards in the United States and in other countries in which we operate. These laws and regulations govern numerous areas that are important to our business, including consumer protection, privacy, fair lending, labor and employment, immigration, import and export practices, product labeling, competition, and marketing and communications practices, to name a few. Such laws and regulations are subject to evolving interpretations and application, and it can be difficult to predict how they may be applied to our business, particularly as we introduce new products and services and expand into new jurisdictions. Any perceived or actual breach of laws and regulations could negatively impact our business. It is possible that these laws and regulations could be interpreted or applied in a manner that would prohibit, alter, or impair our existing or planned products and services; that could cause us to be subject to audits, inquiries, or investigations; that could result in fines, injunctive relief, or other penalties; or that could require costly, time-consuming, or otherwise burdensome compliance measures from us.

In particular, as we seek to build a trusted and secure platform for commerce, and as we expand our network of sellers and buyers and facilitate their transactions and interactions with one another, we will increasingly be subject to laws and regulations relating to the collection, use, retention, security, and transfer of information, including the personally identifiable information of our employees and sellers and their customers. As with the other laws and regulations noted above, these laws and regulations may be interpreted and applied differently over time and from jurisdiction to jurisdiction, and it is possible they will be interpreted and applied in ways that will materially and adversely affect our business. We post on our website our privacy policies and

practices concerning the collection, use, and disclosure of information. Any failure, real or perceived, by us to comply with our posted privacy policies or with any regulatory requirements or orders or other local, state, federal, or international privacy or consumer protection-related laws and regulations could cause sellers or their customers to reduce their use of our products and services and could materially and adversely affect our business.

***Our business is subject to complex and evolving regulations and oversight related to our provision of payments services and other financial services.***

The laws, rules, regulations, and licensing schemes that govern our business include or may in the future include those relating to banking, lending, deposit-taking, cross-border and domestic money transmission, foreign exchange, payments services (such as payment processing and settlement services), consumer financial protection, anti-money laundering, escheatment, and compliance with the Payment Card Industry Data Security Standard, a set of requirements designed to ensure that all companies that process, store, or transmit payment card information maintain a secure environment to protect cardholder data. These laws, rules, and regulations are enforced by multiple authorities and governing bodies in the United States, including the Department of the Treasury, the Consumer Financial Protection Bureau, the Federal Deposit Insurance Corporation, and numerous state and local agencies. Outside of the United States, we are subject to additional laws, rules, and regulations related to the provision of payments and financial services, including those enforced by the Ministry of Economy, Trade, and Industry in Japan, those enforced by the Financial Transactions and Reports Analysis Centre in Canada, and those enforced by the Australian Transaction Reports and Analysis Centre. As we expand into new jurisdictions, the number of foreign regulations and regulators governing our business will expand as well. Our Square Capital service has shifted from offering MCAs to offering loans through a partnership with an FDIC-insured bank partner. In this transition, additional state and federal requirements concerning lending have become applicable. In addition, as our business continues to develop and expand, we may become subject to additional rules and regulations. Similarly, if we choose to offer Square Payroll in more jurisdictions, additional regulations, including tax rules, will apply.

Although we have a compliance program focused on applicable laws, rules, and regulations and are continually investing more in this program, we may still be subject to fines or other penalties in one or more jurisdictions levied by federal, state or local regulators, including state Attorneys General, as well as those levied by foreign regulators. In addition to fines, penalties for failing to comply with applicable rules and regulations could include significant criminal and civil lawsuits, forfeiture of significant assets, or other enforcement actions. We could also be required to make changes to our business practices or compliance programs as a result of regulatory scrutiny. In addition, any perceived or actual breach of compliance by us with respect to applicable laws, rules, and regulations could have a significant impact on our reputation as a trusted brand and could cause us to lose existing customers, prevent us from obtaining new customers, require us to expend significant funds to remedy problems caused by breaches and to avert further breaches, and expose us to legal risk and potential liability.

We have obtained licenses to operate as a money transmitter (or its equivalent) in the United States and in the states where this is required. As a licensed money transmitter, we are subject to obligations and restrictions with respect to the investment of customer funds, reporting requirements, bonding requirements, and inspection by state regulatory agencies concerning those aspects of our business considered money transmission. Evaluation of our compliance efforts, as well as the questions of whether and to what extent our products and services are considered money transmission, are matters of regulatory interpretation and could change over time. In the past, we have been required to pay fines to Florida regulatory authorities and once received a Cease and Desist Order from Illinois regulatory authorities due to their interpretations and applications to our business of their respective state money transmission laws. In the future, as a result of the regulations applicable to our business, we could be subject to additional liability, including governmental fines, restrictions on our business, or other sanctions, and we could be forced to cease conducting certain aspects of our business with residents of certain jurisdictions, be forced to otherwise change our business practices in certain jurisdictions, or be required to obtain additional licenses or regulatory approvals. There can be no assurance that we will be able to obtain any such licenses, and, even if we were able to do so, there could be substantial costs and potential product changes involved in maintaining such licenses, which could have a material and adverse effect on our business.

***We are subject to risks related to litigation, including intellectual property claims and regulatory disputes.***

We may be, and in some instances have been, subject to claims, lawsuits (including class actions and individual lawsuits), government investigations, and other proceedings involving intellectual property, consumer protection, privacy, labor and employment, immigration, import and export practices, product labeling, competition, accessibility, securities, tax, marketing and communications practices, commercial disputes, and other matters. For example, we are involved in a putative class action lawsuit concerning independent contractors in connection with our Caviar business, alleging that the couriers have been improperly denied reimbursement for business expenses due to their classification as independent contractors.

The number and significance of our legal disputes and inquiries have increased as we have grown larger, as our business has expanded in scope and geographic reach, and as our products and services have increased in complexity.

Becoming a public company has raised our public profile, which could result in increased litigation. In addition, some of the laws and regulations affecting the internet, mobile commerce, payment processing, business financing, and employment did not anticipate businesses like ours, and many of the laws and regulations affecting us have been enacted relatively recently. As a result, there is substantial uncertainty regarding the scope and application of many of the laws and regulations to which we are subject, which increases the risk that we will be subject to claims alleging violations of those laws and regulations. In the future, we may also be accused of having, or be found to have, infringed or violated third-party intellectual property rights.

Regardless of the outcome, legal proceedings can have a material and adverse impact on us due to their costs, diversion of our resources, and other factors. Plaintiffs may seek, and we may become subject to, preliminary or provisional rulings in the course of litigation, including preliminary injunctions requiring us to cease some or all of our operations. We may decide to settle legal disputes on terms that are unfavorable to us. Furthermore, if any litigation to which we are a party is resolved adversely, we may be subject to an unfavorable judgment that we may not choose to appeal or that may not be reversed upon appeal. We may have to seek a license to continue practices found to be in violation of a third party's rights. If we are required, or choose to enter into, royalty or licensing arrangements, such arrangements may not be available on reasonable terms or at all and may significantly increase our operating costs and expenses. As a result, we may also be required to develop or procure alternative non-infringing technology or discontinue use of technology, and doing so could require significant effort and expense or may not be feasible. In addition, the terms of any settlement or judgment in connection with any legal claims, lawsuits, or proceedings may require us to cease some or all of our operations or pay substantial amounts to the other party and could materially and adversely affect our business.

***Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our products, services, and brand.***

Our trade secrets, trademarks, copyrights, patents, and other intellectual property rights are critical to our success. We rely on, and expect to continue to rely on, a combination of confidentiality, invention assignment, and license agreements with our employees, consultants, and third parties with whom we have relationships, as well as trademark, trade dress, domain name, copyright, trade secret, and patent rights, to protect our brand and other intellectual property rights. However, various events outside of our control may pose a threat to our intellectual property rights, as well as to our products and services. Effective protection of trademarks, copyrights, domain names, patent rights, and other intellectual property rights is expensive and difficult to maintain, both in terms of application and maintenance costs, as well as the costs of defending and enforcing those rights. The efforts we have taken to protect our intellectual property rights may not be sufficient or effective. Our intellectual property rights may be infringed, misappropriated, or challenged, which could result in them being narrowed in scope or declared invalid or unenforceable. Similarly, our reliance on unpatented proprietary information and technology, such as trade secrets and confidential information, depends in part on agreements we have in place with employees and third parties that place restrictions on the use and disclosure of this intellectual property. These agreements may be insufficient or may be breached, or we may not enter into sufficient agreements with such individuals in the first instance, in either case potentially resulting in the unauthorized use or disclosure of our trade secrets and other intellectual property, including to our competitors, which could cause us to lose any competitive advantage resulting from this intellectual property. Individuals not subject to invention assignment agreements may make adverse ownership claims to our current and future intellectual property. There can be no assurance that our intellectual property rights will be sufficient to protect against others offering products or services that are substantially similar to ours and that compete with our business.

As of June 30, 2016, we had 176 patents issued in the United States and abroad and 549 patent applications on file in the United States and abroad, though there can be no assurance that any or all of these applications will ultimately be issued as patents. We also pursue registration of copyrights, trademarks, and domain names in the United States and in certain jurisdictions outside of the United States, but doing so may not always be successful or cost-effective. In general, we may be unable or, in some instances, choose not to obtain legal protection for our intellectual property, and our existing and future intellectual property rights may not provide us with competitive advantages or distinguish our products and services from those of our competitors. The laws of some foreign countries do not protect our intellectual property rights to the same extent as the laws of the United States, and effective intellectual property protection and mechanisms may not be available in those jurisdictions. We may need to expend additional resources to defend our intellectual property in these countries, and the inability to do so could impair our business or adversely affect our international expansion. Our intellectual property rights may be contested, circumvented, or found unenforceable or invalid, and we may not be able to prevent third parties from infringing, diluting, or otherwise violating them.

Significant impairments of our intellectual property rights, and limitations on our ability to assert our intellectual property rights against others, could have a material and adverse effect on our business.

***We may not be able to secure financing on favorable terms, or at all, to meet our future capital needs.***

We have funded our operations since inception primarily through equity financings, bank credit facilities, and capital lease arrangements. We do not know when or if our operations will generate sufficient cash to fund our ongoing operations. In the future, we may require additional capital to respond to business opportunities, refinancing needs, challenges, acquisitions, or unforeseen circumstances and may decide to engage in equity or debt financings or enter into credit facilities for other reasons, and we may not be able to secure any such additional debt or equity financing or refinancing on favorable terms, in a timely manner, or at all. Any debt financing obtained by us in the future could also involve restrictive covenants relating to our capital-raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. Our credit facility contains operating covenants, including customary limitations on the incurrence of certain indebtedness and liens, restrictions on certain inter-company transactions, and limitations on the amount of dividends and stock repurchases. Our ability to comply with these covenants may be affected by events beyond our control, and breaches of these covenants could result in a default under the credit facility and any future financial agreements into which we may enter. If not waived, defaults could cause our outstanding indebtedness under our credit facility and any future financing agreements that we may enter into to become immediately due and payable.

If we raise additional funds through further issuances of equity, convertible debt securities, or other securities convertible into equity, our existing stockholders could suffer significant dilution in their percentage ownership of our company, and any new equity securities we issue could have rights, preferences, and privileges senior to those of holders of our Class A common stock. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to grow or support our business and to respond to business challenges could be significantly limited.

***Any acquisitions, strategic investments, entries into new businesses, divestitures, and other transactions could fail to achieve strategic objectives, disrupt our ongoing operations, and harm our business.***

In pursuing our business strategy, we routinely conduct discussions and evaluate opportunities for possible acquisitions, strategic investments, entries into new businesses, divestitures, and other transactions. We continue to seek to acquire or invest in businesses, apps, or technologies that we believe could complement or expand our products and services, enhance our technical capabilities, or otherwise offer growth opportunities. We also have limited experience in acquiring other businesses. In addition to opportunity costs, these transactions involve large challenges and risks, whether or not such transactions are completed, including risks that:

- the transaction may not advance our business strategy;
- we may be unable to identify opportunities on terms acceptable to us;
- we may not realize a satisfactory return or increase our revenue;
- we may experience disruptions on our on-going operations and divert management's attention;
- we may be unable to retain key personnel;
- we may experience difficulty in integrating technologies, IT systems, accounting systems, culture, or personnel;
- acquired businesses may not have adequate controls, processes and procedures to ensure compliance with laws and regulations, and our due diligence process may not identify compliance issues or other liabilities;
- we may have difficulty entering new market segments;
- we may be unable to retain the customers and partners of acquired businesses;
- there may be unknown, underestimated, or undisclosed commitments or liabilities, including actual or threatened litigation;

- there may be regulatory constraints, particularly competition regulations that may affect the extent to which we can maximize the value of our acquisitions or investments; and
- acquisitions could result in dilutive issuances of equity securities or the incurrence of debt.

We may also choose to divest certain businesses or product lines that no longer fit with our strategic objectives. If we decide to sell assets or a business, we may have difficulty obtaining financing or selling on acceptable terms in a timely manner. Additionally, we may experience difficulty separating out portions of or entire businesses, incur potential loss of revenue or experience negative impact on margins. Such potential transactions may also delay achievement of our strategic objectives, cause us to incur additional expenses, potentially disrupt seller relationships, and expose us to unanticipated or on-going obligations and liabilities.

***Our reported financial results may be materially and adversely affected by changes in accounting principles generally accepted in the United States.***

Generally accepted accounting principles in the United States are subject to interpretation by the FASB, the SEC, and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results and could materially and adversely affect the transactions completed before the announcement of a change.

***We may have exposure to greater-than-anticipated tax liabilities, which may materially and adversely affect our business.***

We are subject to income taxes and non-income taxes in the United States and other countries in which we conduct business, and such laws and rates vary by jurisdiction. We are subject to review and audit by U.S. federal, state, local and foreign tax authorities. Such tax authorities may disagree with tax positions we take and if any such tax authority were to successfully challenge any such position, our financial results and operations could be materially and adversely affected. In addition, our future tax liability could be adversely affected by changes in tax laws, rates, and regulations. The determination of our worldwide provision for income and other taxes is highly complex and requires significant judgment, and there are many transactions and calculations where the ultimate tax determination is uncertain. Although we believe our estimates are reasonable, the amount ultimately payable may differ from amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made.

**Risks Related to Ownership of Our Common Stock**

***The dual class structure of our common stock has the effect of concentrating voting control within our stockholders who held our stock prior to our initial public offering, including many of our employees and directors and their affiliates; this will limit or preclude your ability to influence corporate matters.***

Our Class B common stock has ten votes per share, and our Class A common stock has one vote per share. Stockholders who hold shares of Class B common stock, including many of our executive officers, employees, and directors and their affiliates, held approximately 95% of the voting power of our outstanding capital stock as of June 30, 2016. Our executive officers and directors and their affiliates held approximately 50.7% of the voting power of our outstanding capital stock as of June 30, 2016. Because of the ten-to-one voting ratio between our Class B and Class A common stock, the holders of our Class B common stock collectively hold more than a majority of the combined voting power of our common stock, and therefore such holders are able to control all matters submitted to our stockholders for approval. When the shares of our Class B common stock represent less than 5% of the combined voting power of our Class A common stock and Class B common stock, the then-outstanding shares of Class B common stock will automatically convert into shares of Class A common stock.

Transfers by holders of Class B common stock will generally result in those shares converting to Class A common stock, subject to limited exceptions, such as certain transfers to entities, including certain charities and foundations, to the extent the transferor retains sole dispositive power and exclusive voting control with respect to the shares of Class B common stock. Such conversions of Class B common stock to Class A common stock upon transfer will have the effect, over time, of increasing the relative voting power of those holders of Class B common stock who retain their shares in the long term. If, for example, our stockholders who held our stock prior to our initial public offering retain a significant portion of their holdings of Class B common stock for an extended period of time, they could, in the future, continue to control a majority of the combined voting power of our outstanding capital stock.

***We will continue to incur significantly increased costs and devote substantial management time as a result of operating as a public company.***

As a public company, we incur significant legal, financial, and other expenses that we did not incur as a private company. We are subject to the reporting requirements of the Exchange Act and are required to comply with the applicable requirements of the Sarbanes-Oxley Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act, as well as the rules and regulations subsequently implemented by the SEC and the listing standards of the New York Stock Exchange, including changes in corporate governance practices and the establishment and maintenance of effective disclosure and financial controls. We are required to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting for the first fiscal year beginning after the effective date of our initial public offering. This assessment will need to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting, as well as a statement that our auditors have issued an attestation report on our management's assessment of our internal controls. We expect that complying with these requirements will increase our legal and financial compliance costs and will make some activities more time consuming and costly. In addition, we expect that our management and other personnel will need to divert attention from operational and other business matters to devote substantial time to these requirements. In particular, we expect to incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 of the Sarbanes-Oxley Act. We will need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge and maintain an internal audit function. Moreover, we could incur additional compensation costs in the event that we decide to pay cash compensation closer to that of other public technology companies, which would increase our general and administrative expenses and could materially and adversely affect our profitability.

***If we are unable to implement and maintain effective internal controls over financial reporting in the future, investors may lose confidence in the accuracy and completeness of our financial reports, and the market price of our Class A common stock may be materially and adversely affected.***

We are currently evaluating our internal controls, identifying and remediating deficiencies in those internal controls, and documenting the results of our evaluation, testing, and remediation. We may not be able to complete our evaluation, testing, and any required remediation in a timely fashion. If we identify one or more material weaknesses in our internal control over financial reporting that we are unable to remediate before the end of the same fiscal year in which the material weakness is identified, or if we are otherwise unable to maintain effective internal controls over financial reporting, we will be unable to assert that our internal controls are effective. If we are unable to do so, or if our auditors are unable to attest to management's report on the effectiveness of our internal controls, we could lose investor confidence in the accuracy and completeness of our financial reports, which could cause the price of our Class A common stock to decline. We have identified significant deficiencies in our internal control over financial reporting in the past and have taken steps to remediate such deficiencies. However, our efforts to remediate them may not be effective or prevent any future deficiency in our internal control over financial reporting. We will be required to disclose material changes made in our internal controls and procedures on a quarterly basis. However, our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act until our Annual Report on Form 10-K for the fiscal year ending December 31, 2016.

***The market price of our Class A common stock has been and will likely continue to be volatile, and you could lose all or part of your investment.***

The market price of our Class A common stock has been and may continue to be subject to wide fluctuations in response to various factors, some of which are beyond our control and may not be related to our operating performance. In addition to the factors discussed in this "Risk Factors" section and elsewhere in this Quarterly Report on Form 10-Q, factors that could cause fluctuations in the market price of our Class A common stock include the following:

- price and volume fluctuations in the overall stock market from time to time;
- volatility in the market prices and trading volumes of companies in our industry or companies that investors consider comparable;
- changes in operating performance and stock market valuations of other companies generally or of those in our industry in particular;
- sales of shares of our common stock by us or our stockholders;

- failure of securities analysts to maintain coverage and/or to provide accurate consensus results of us, changes in financial estimates by securities analysts who follow us, or our failure to meet these estimates or the expectations of investors;
- the financial or other projections we may provide to the public, any changes in those projections, or our failure to meet those projections;
- announcements by us or our competitors of new products or services;
- the public's reaction to our press releases, other public announcements, and filings with the SEC;
- rumors and market speculation involving us or other companies in our industry;
- actual or anticipated changes in our results of operations;
- changes in the regulatory environment;
- actual or anticipated developments in our business, our competitors' businesses, or the competitive landscape generally;
- litigation involving us, our industry, or both, or investigations by regulators into our operations or those of our competitors;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidelines, interpretations, or principles;
- any significant change in our management; and
- general economic conditions and slow or negative growth of our markets.

In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

***A certain portion of the shares of our capital stock outstanding are restricted from immediate resale but may be sold in the near future. The large number of shares of our capital stock eligible for public sale or subject to rights requiring us to register them for public sale could depress the market price of our Class A common stock.***

The market price of our Class A common stock could decline as a result of sales of a large number of shares of our Class A common stock in the market, and the perception that these sales could occur may also depress the market price of our Class A common stock. Our executive officers, directors, and the holders of substantially all of our capital stock, options, and warrants prior to our initial public offering entered into market standoff agreements with us or lock-up agreements with the underwriters of our initial public offering under which they agreed, subject to specific exceptions, not to sell any shares of our capital stock prior to May 17, 2016 at the earliest (some holders may not sell prior to August 15, 2016). As a result of these agreements and the provisions of our investors' rights agreement, a certain portion of the shares of our capital stock became available for sale in the public market beginning on May 17, 2016 and all remaining shares of our capital stock will be available for sale in the public market beginning on August 15, 2016, subject in some cases to the volume and other restrictions of Rule 144 and Rule 701 under the Securities Act of 1933, as amended, as well as our insider trading policy.

Following the expiration of the lock-up agreements referred to above, stockholders owning an aggregate of more than 140 million shares of our capital stock (including shares issuable pursuant to the exercise of warrants to purchase shares of our capital stock that were outstanding as of June 30, 2016) can require us to register shares of our capital stock owned by them for public sale in the United States. Future transfers by holders of our Class B common stock will generally result in those shares converting into shares of our Class A common stock, subject to limited exceptions. In addition, we have registered and reserved approximately 250 million shares of our capital stock for future issuance under our equity compensation plans. As a result, subject to the satisfaction of applicable exercise periods, the expiration or waiver of the market standoff agreements and lock-up agreements

referred to above, and applicable volume restrictions and other restrictions that apply to affiliates, the shares of our capital stock issued upon exercise of outstanding options to purchase shares of our Class A common stock will be available for immediate resale in the United States in the open market.

Future sales of our common stock may make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. These sales also could cause the market price of our common stock to decline and make it more difficult for you to sell shares of our Class A common stock.

***Anti-takeover provisions contained in our amended and restated certificate of incorporation, our amended and restated bylaws, and provisions of Delaware law, could impair a takeover attempt.***

Our amended and restated certificate of incorporation, our amended and restated bylaws, and Delaware law contain provisions which could have the effect of rendering more difficult, delaying, or preventing an acquisition deemed undesirable by our board of directors and therefore depress the trading price of our Class A common stock.

Among other things, our amended and restated certificate of incorporation and amended and restated bylaws include provisions (i) creating a classified board of directors whose members serve staggered three-year terms; (ii) authorizing “blank check” preferred stock, which could be issued by our board of directors without stockholder approval and may contain voting, liquidation, dividend, and other rights superior to our common stock; (iii) limiting the ability of our stockholders to call special meetings; (iv) eliminating the ability of our stockholders to act by written consent without a meeting or to remove directors without cause; and (v) requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors. These provisions, alone or together, could delay or prevent hostile takeovers and changes in control or changes in our management.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which prevents certain stockholders holding more than 15% of our outstanding capital stock from engaging in certain business combinations without the approval of our board of directors or the holders of at least two-thirds of our outstanding capital stock not held by such stockholder.

Any provision of our amended and restated certificate of incorporation, amended and restated bylaws, or Delaware law that has the effect of delaying or preventing a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our capital stock and could also affect the price that some investors are willing to pay for our Class A common stock.

***Our amended and restated bylaws provide that the Court of Chancery of the State of Delaware will be the sole and exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or employees.***

Our amended and restated bylaws provide that, unless we consent to the selection of an alternative forum, the Court of Chancery of the State of Delaware is the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf; (ii) any action asserting a claim of breach of fiduciary duty owed by any of our directors, officers, or other employees to us or to our stockholders; (iii) any action asserting a claim arising pursuant to the Delaware General Corporation Law; or (iv) any action asserting a claim governed by the internal affairs doctrine. The choice of forum provision may limit a stockholder’s ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, or other employees, which may discourage such lawsuits against us and our directors, officers, and other employees. Alternatively, if a court were to find the choice of forum provision contained in our amended and restated bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could have a material and adverse impact on our business.

***If securities or industry analysts publish reports that are interpreted negatively by the investment community, publish negative research reports about our business, or cease coverage of our company or fail to regularly publish reports on us, our share price and trading volume could decline.***

The trading market for our Class A common stock depends, to some extent, on the research and reports that securities or industry analysts publish about us, our business, our market, or our competitors. We do not have any control over these analysts or the information contained in their reports. If one or more analysts publish research reports that are interpreted negatively by the investment community, or have a negative tone regarding our business, financial or operating performance, industry or end-markets, our share price could decline. In addition, if a majority of these analysts cease coverage of our company or fail to

regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

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

We currently intend to retain any future earnings to finance the operation and expansion of our business, and we do not expect to declare or pay any dividends in the foreseeable future. As a result, you may only receive a return on your investment in our common stock if the trading price of our common stock increases. Investors seeking cash dividends should not purchase shares of our common stock.

***Additional stock issuances could result in significant dilution to our stockholders.***

We may issue additional equity securities to raise capital, make acquisitions, or for a variety of other purposes. Additional issuances of our stock may be made pursuant to the exercise or conversion of new or existing convertible debt securities, warrants, stock options, or other equity incentive awards to new and existing service providers. Any such issuances will result in dilution to existing holders of our stock. We rely on equity-based compensation as an important tool in recruiting and retaining employees. The amount of dilution due to equity-based compensation of our employees and other additional issuances could be substantial.

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

Not applicable.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Not applicable.

**Item 6. Exhibits**

The documents listed in the Exhibit Index of this Quarterly Report on Form 10-Q are filed with this Quarterly Report on Form 10-Q (numbered in accordance with Item 601 of Regulation S-K).

**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.

**SQUARE, INC.**

Date: August 4, 2016

By: /s/ Jack Dorsey

*Jack Dorsey*

*President, Chief Executive Officer, and Chairman*

*(Principal Executive Officer)*

By: /s/ Sarah Friar

*Sarah Friar*

*Chief Financial Officer*

*(Principal Accounting and Financial Officer)*

## EXHIBIT INDEX

Exhibit Number	Description
10.1 +	Square, Inc. 2015 Equity Incentive Plan, as amended and restated, and related form agreements.
10.2 +	Square, Inc. Outside Director Compensation Policy, as amended and restated.
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1†	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

† The certifications attached as Exhibit 32.1 that accompany this Quarterly Report on Form 10-Q are deemed furnished and not filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Square, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

+ Indicates management contract or compensatory plan.

SQUARE, INC.

2015 EQUITY INCENTIVE PLAN, as amended and restated

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**1. Purposes of the Plan.**

The purposes of this Plan are to attract and retain personnel for positions with the Company, to provide additional incentive to Employees, Directors, and Consultants (collectively, "Service Providers"), and to promote the success of the Company's business.

The Plan permits the grant of Incentive Stock Options to Employees and the grant of Nonstatutory Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares, Performance Stock Units, and Performance Awards to any Service Provider.

**2. Shares Subject to the Plan.**

- (a) Allocation of Shares to Plan. The maximum aggregate number of Shares that may be issued under the Plan is:
- (i) 30,000,000 Shares, plus

- (ii) a number of Shares equal to the number of shares of Class B common stock of the Company subject to outstanding awards granted under the Square, Inc. 2009 Stock Plan that, after the Registration Date, expire or otherwise terminate without having been exercised in full and a number of Shares equal to the number of Shares of Class B common Stock of the Company issued under awards granted under the Existing Plan that, after the Registration Date, are forfeited to the Company, tendered to or withheld by the Company for payment of an exercise price or for tax withholding, or repurchased by the Company due to failure to vest, with the maximum number of Shares that may be added to the Plan under this Section 2(a)(i) being equal to 106,234,076 Shares, plus

- (iii) any additional Shares that become available for issuance under the Plan under Sections 2(b) and 2(c).

The Shares may be authorized but unissued Common Stock or Common Stock issued and then reacquired by the Company.

- (b) Automatic Share Reserve Increase. The number of Shares available for issuance under the Plan will be increased on the first day of each Fiscal Year beginning with the 2016 Fiscal Year, in an amount equal to the least of

- (i) 40,000,000 Shares,

- (ii) 5 % of the total number of shares of all classes of the Company's common stock outstanding on the last day of the immediately preceding Fiscal Year, and

- (iii) a lower number of Shares determined by the Administrator.

- (c) Lapsed Awards.

- (i) *Options and Stock Appreciation Rights*. If an Option or Stock Appreciation Right expires or becomes unexercisable without having been exercised in full or is surrendered under an Exchange Program, the unissued Shares subject to the Option or Stock Appreciation Right will become available for future issuance under the Plan.

- (ii) *Stock Appreciation Rights*. Only Shares actually issued pursuant to a Stock Appreciation Right (i.e., the net Shares issued) will cease to be available under the Plan; all remaining Shares originally subject to the Stock Appreciation Right will remain available for future issuance under the Plan.

- (iii) *Full-Value Awards*. Shares issued pursuant to Awards of Restricted Stock, Restricted Stock Units, Performance Shares, Performance Stock Units or stock-settled Performance Awards that are reacquired by the Company due to failure to vest or are forfeited to the Company will become available for future issuance under the Plan.

(iv) Withheld Shares . Shares used to pay the Exercise Price of an Award or to satisfy tax withholding obligations related to an Award will become available for future issuance under the Plan.

(v) Cash-Settled Awards . If any portion of an Award under the Plan is paid to a Participant in cash rather than Shares, that cash payment will not reduce the number of Shares available for issuance under the Plan.

(d) Incentive Stock Options . The maximum number of Shares that may be issued upon the exercise of Incentive Stock Options will equal 200% of the aggregate Share number stated in Section 2(a) plus, to the extent allowable under Code Section 422, any Shares that become available for issuance under the Plan under Sections 2(b) and 2(c).

(e) Adjustment . The numbers provided in Sections 2(a), 2(b), and 2(d) will be adjusted as a result of changes in capitalization referred to in Section 13.

(f) Substitute Awards . If the Committee grants Awards in substitution for equity compensation awards outstanding under a plan maintained by an entity acquired by or consolidated with the Company, the grant of those substitute Awards will not decrease the number of Shares available for issuance under the Plan.

### 3. Administration of the Plan.

(a) Procedure .

(i) General . The Plan will be administered by the Board or a Committee (the “Administrator”). Different Administrators may administer the Plan with respect to different groups of Service Providers. The Board may retain the authority to concurrently administer the Plan with a Committee and may revoke the delegation of some or all authority previously delegated.

(ii) Further Delegation . To the extent permitted by Applicable Laws, the Board or a Committee may delegate to 1 or more officers the authority to grant Awards to Employees of the Company or any of its Subsidiaries who are not officers, provided that the delegation must specify any limitations on the authority required by Applicable Laws, including the total number of Shares that may be subject to the Awards granted by such officer(s). Such delegation may be revoked at any time by the Board or Committee. Any such Awards will be granted on the form of Award Agreement most recently approved for use by the Board or a Committee made up solely of Directors, unless the resolutions delegating the authority permit the officer(s) to use a different form of Award Agreement approved by the Board or a Committee made up solely of Directors.

(iii) Section 162(m) . Unless an Award is granted and administered solely by a Committee of 2 or more “outside directors” within the meaning of Code Section 162(m), it will not qualify as “performance-based compensation” within the meaning of Code Section 162(m).

(b) Powers of the Administrator . Subject to the terms of the Plan, any limitations on delegations specified by the Board, and any requirements imposed by Applicable Laws, the Administrator will have the authority, in its sole discretion, to make any determinations and perform any actions deemed necessary or advisable to administer the Plan including:

(i) to determine the Fair Market Value;

(ii) to approve forms of Award Agreements for use under the Plan (provided that all forms of Award Agreement must be approved by the Board or the Committee of Directors acting as the Administrator);

(iii) to select the Service Providers to whom Awards may be granted and grant Awards to such Service Providers;

(iv) to determine the number of Shares to be covered by each Award granted;

(v) to determine the terms and conditions, consistent with the Plan, of any Award granted. Such terms and conditions may include, but are not limited to, the Exercise Price, the time(s) when Awards may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Award or the Shares relating to an Award;

- (vi) to institute and determine the terms and conditions of an Exchange Program;
- (vii) to interpret the Plan and make any decisions necessary to administer the Plan;
- (viii) to establish, amend and rescind rules relating to the Plan, including rules relating to sub-plans established to satisfy laws of jurisdictions other than the United States or to qualify Awards for favorable tax treatment under laws of jurisdictions other than the United States;
- (ix) to interpret, modify or amend each Award (subject to Section 18), including extending the Expiration Date and the post-termination exercisability period of such modified or amended Awards;
- (x) to allow Participants to satisfy tax withholding obligations in any manner permitted by Section 15;
- (xi) to delegate ministerial duties to any of the Company's employees;
- (xii) to authorize any person to take any steps and execute, on behalf of the Company, any documents required for an Award previously granted by the Administrator to be effective; and
- (xiii) to allow Participants to defer the receipt of the payment of cash or the delivery of Shares otherwise due to any such Participants under an Award.

(c) Termination of Status.

(i) Unless a Participant is on a leave of absence approved by the Company as set forth in Section 11, the Participant's status as a Service Provider will end at midnight at the end of the last day the Participant actively provides services for a member of the Company Group (the "Termination of Status Date"). The Administrator has the sole discretion to determine the date on which a Participant stops actively providing services and whether a Participant may still be considered to be providing services while on a leave of absence and the Administrator may delegate this decision, other than with respect to Officers, to the Company's senior human resources officer.

(ii) This termination of status as a Service Provider will occur regardless of the reason for such termination even if the termination is later found to be invalid, in breach of employment laws in the jurisdiction where Participant is providing services, or in violation of the terms of Participant's employment or service agreement, if any such agreement exists.

(iii) Unless otherwise expressly provided in an Award Agreement or otherwise determined by the Administrator, a Participant's right to vest in any Award under the Plan will cease as of the Termination of Status Date and will not be extended by any notice period, whether arising under contract, statute or common law, including any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where the Participant is providing services.

(d) Grant Date. The grant date of an Award ("Grant Date") will be the date that the Administrator makes the determination granting such Award or may be a later date if such later date is designated by the Administrator on the date of the determination or under an automatic grant policy. Notice of the determination will be provided to each Participant within a reasonable time after the Grant Date.

(e) Waiver. The Administrator may waive any terms, conditions or restrictions.

(f) Fractional Shares. Except as otherwise provided by the Administrator, any fractional Shares that result from the adjustment of Awards will be canceled. Any fractional Shares that result from vesting percentages will be accumulated and vested on the date that an accumulated full Share is vested.

(g) Electronic Delivery. The Company may deliver by e-mail or other electronic means (including posting on a website maintained by the Company or by a third party under contract with the Company or another member of the Company Group) all documents relating to the Plan or any Award and all other documents that the Company is required to deliver to its security holders (including prospectuses, annual reports and proxy statements).

(h) Choice of Law; Choice of Forum. The Plan, all Awards and all determinations made and actions taken under the Plan, to the extent not otherwise governed by the laws of the United States, will be governed by the laws of the State of Delaware without giving effect to principles of conflicts of law. For purposes of litigating any dispute that arises under this Plan, a Participant's acceptance of an Award is his or her consent to the jurisdiction of the State of Delaware, and agreement that any such litigation will be conducted in Delaware Court of Chancery, or the federal courts for the United States for the District of Delaware, and no other courts, regardless of where a Participant's services are performed.

(i) Effect of Administrator's Decision. The Administrator's decisions, determinations and interpretations will be final and binding on all Participants and any other holders of Awards.

#### 4. **Stock Options.**

(a) Stock Option Award Agreement. Each Option will be evidenced by an Award Agreement that will specify the number of Shares subject to the Option, its per share exercise price ("Exercise Price"), its Expiration Date, and such other terms and conditions as the Administrator determines. Each Option will be designated in the Award Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. An Option not designated as an Incentive Stock Option is a Nonstatutory Stock Option.

(b) Exercise Price. The Exercise Price for the Shares to be issued upon exercise of an Option will be determined by the Administrator.

(c) Form of Consideration. The Administrator will determine the acceptable forms of consideration for exercising an Option and those forms of consideration will be described in the Award Agreement. The consideration may consist of any combination of the following, to the extent permitted by Applicable Laws:

(i) cash;

(ii) check or wire transfer;

(iii) promissory note;

(iv) other Shares that have a fair market value on the date of surrender equal to the aggregate Exercise Price of the Shares as to which such Option will be exercised. To the extent not prohibited by the Administrator, this shall include the ability to tender Shares to exercise the Option and then use the Shares received on exercise to exercise the Option with respect to additional Shares;

(v) consideration received by the Company under a cashless exercise arrangement (whether through a broker or otherwise) implemented by the Company for the exercise of Options that has been approved by the Board or a Committee of Directors;

(vi) consideration received by the Company under a net exercise program under which Shares are withheld from otherwise deliverable Shares that has been approved by the Board or a Committee of Directors; and

(vii) any other consideration or method of payment to issue Shares (provided that other forms of considerations may only be approved by the Board or a Committee of Directors).

(d) Incentive Stock Option Limitations.

(i) The Exercise Price of an Incentive Stock Option may not be less than 100% of the Fair Market Value on the Grant Date.

(ii) To the extent that the aggregate fair market value of the shares with respect to which incentive stock options under Code Section 422(b) are exercisable for the first time by a Participant during any calendar year (under all plans and agreements of the Company Group) exceeds \$100,000, the incentive stock options whose value exceeds \$100,000 will be treated as nonstatutory stock options. Incentive stock options will be considered in the order in which they were granted. For this purpose the fair market value of the shares subject to an option will be determined as of the grant date of each option.

(iii) The Expiration Date of an Incentive Stock Option will be the day prior to the 10<sup>th</sup> anniversary of the Grant Date or any earlier date provided in the Award Agreement, subject to clause (iv) below.

(iv) The following rules apply to Incentive Stock Options granted to Participants who own stock representing more than 10% of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary of the Company:

(1) the Expiration Date of the Incentive Stock Option may not be after the day prior to the 5<sup>th</sup> anniversary of the Grant Date; and

(2) the Exercise Price may not be less than 110% of the Fair Market Value on the Grant Date.

If an Option is designated in the Administrator action that granted it as an Incentive Stock Option but the terms of the Option do not comply with Sections 4(d)(iv)(1) and 4(d)(iv)(2), then the Option will not qualify as an Incentive Stock Option. All Options granted under the Plan are Nonstatutory Stock Options unless specifically designated as Incentive Stock Options in the Award Agreement pursuant to which such Options are granted.

(e) Exercise of Option. An Option is exercised when the Company receives: (i) a notice of exercise (in such form as the Administrator may specify from time to time) from the person entitled to exercise the Option and (ii) full payment for the Shares with respect to which the Option is exercised (together with applicable withholding taxes). Shares issued upon exercise of an Option will be issued in the name of the Participant. Until the Shares are issued (as evidenced by the entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder will exist with respect to the Shares subject to an Option, despite the exercise of the Option. The Company will issue (or cause to be issued) such Shares promptly after the Option is exercised. An Option may not be exercised for a fraction of a Share. Exercising an Option in any manner will decrease the number of Shares thereafter available, both for purposes of the Plan and for purchase under the Option, by the number of Shares as to which the Option is exercised.

(f) Expiration of Options. Subject to Section 4(d), an Option's Expiration Date will be set forth in the Award Agreement. An Option may expire before its expiration date under Sections 14 or 16(b) or under the Award Agreement.

(g) Tolling of Expiration. If exercising an Option prior to its expiration is not permitted because of Applicable Laws, other than the rules of any stock exchange or quotation system on which the Common Stock is listed or quoted, the Option will remain exercisable until 30 days after the first date on which exercise would no longer be prevented by such provisions. If this would result in the Option remaining exercisable past its Expiration Date, then it will remain exercisable only until the end of the later of (x) the first day on which its exercise would not be prevented by Section 19(a) and (y) its Expiration Date.

## 5. Restricted Stock.

(a) Restricted Stock Award Agreement. Each Award of Restricted Stock will be evidenced by an Award Agreement that will specify the Period of Restriction (if any), the number of Shares granted, and such other terms and conditions as the Administrator determines. Unless the Administrator determines otherwise, Shares of Restricted Stock will be held in escrow until the end of the Period of Restriction applicable to such Shares. All grants of Restricted Stock and interpretative decisions about Restricted Stock may only be made by the Administrator.

(b) Restrictions :

(i) Except as provided in this Section 5 or the Award Agreement, Shares of Restricted Stock may not be sold, transferred, pledged, assigned, or otherwise alienated until the end of the Period of Restriction applicable to such Shares.

(ii) During the Period of Restriction, Service Providers holding Shares of Restricted Stock may exercise full voting rights with respect to those Shares, unless the Administrator determines otherwise.

(iii) During the Period of Restriction, Service Providers holding Shares of Restricted Stock will not be entitled to receive dividends and other distributions paid with respect to such Shares, unless the Administrator provides otherwise. If the Administrator provides that dividends and distributions will be received and any such dividends or distributions are paid in cash they will be subject to the same provisions regarding forfeitability as the Shares of Restricted Stock with respect to which they were paid and if such dividend or distributions are paid in Shares, the Shares will be subject to the same restrictions on transferability and forfeitability as the Shares of Restricted Stock with respect to which they were paid and, unless the Administrator determines otherwise, the Company will hold such Shares until the restrictions on the Shares of Restricted Stock with respect to which they were paid have lapsed.

(iv) Except as otherwise provided in this Section 5 or an Award Agreement, Shares of Restricted Stock covered by each Restricted Stock Award made under the Plan will be released from escrow when practicable after the last day of the applicable Period of Restriction.

(v) The Administrator may impose, prior to grant, or remove any restrictions on Shares of Restricted Stock.

## 6. Restricted Stock Units.

(a) Restricted Stock Unit Award Agreement. Each Award of Restricted Stock Units will be evidenced by an Award Agreement that will specify the terms, conditions, and restrictions related to the grant, including the number of Restricted Stock Units.

(b) Vesting Criteria and Other Terms. The Administrator will set vesting criteria that, depending on the extent to which the criteria are met, will determine the number of Restricted Stock Units paid out to the Participant. The Administrator may set vesting criteria based upon the achievement of Company-wide, divisional, business unit, or individual goals (that may include continued employment or service) or any other basis determined by the Administrator in its sole discretion.

(c) Earning Restricted Stock Units. Upon meeting the applicable vesting criteria, the Participant will have earned the Restricted Stock Units and will be paid as determined in Section 6(d). The Administrator may reduce or waive any criteria that must be met to earn the Restricted Stock Units.

(d) Form and Timing of Payment. Payment of earned Restricted Stock Units will be made when practicable after the date set forth in the Award Agreement and determined by the Administrator. The Administrator may settle earned Restricted Stock Units in cash, Shares, or a combination of both.

## 7. Stock Appreciation Rights.

(a) Stock Appreciation Right Award Agreement. Each Stock Appreciation Right grant will be evidenced by an Award Agreement that will specify the Exercise Price (which may not be less than 100% of Fair Market Value on the Grant Date), its Expiration Date, the conditions of exercise, and such other terms and conditions as the Administrator determines.

(b) Payment of Stock Appreciation Right Amount. When a Participant exercises a Stock Appreciation Right, he or she will be entitled to receive a payment from the Company equal to:

- (i) the difference between the Fair Market Value on the date of exercise and the Exercise Price multiplied by
- (ii) the number of Shares with respect to which the Stock Appreciation Right is exercised.

Payment upon Stock Appreciation Right exercise may be made in cash, in Shares of equivalent value, or any combination of cash and Shares, with the determination of form of payment made by the Administrator. Shares issued upon exercise of a Stock Appreciation Right will be issued in the name of the Participant. Until Shares are issued (as evidenced by the entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder will exist with respect to the Shares subject to a Stock Appreciation Right, despite the exercise of the Stock Appreciation Right. The Company will issue (or cause to be issued) such Shares promptly after the Stock Appreciation Right is exercised. A Stock Appreciation Right may not be exercised for a fraction of a Share.

Exercising a Stock Appreciation Right in any manner will decrease (x) the number of Shares thereafter available under the Stock Appreciation Right by the number of Shares as to which the Stock Appreciation Right is exercised and (y) the number of Shares thereafter available under the Plan by the number of Shares issued upon such exercise.

(c) Expiration of Stock Appreciation Rights. A Stock Appreciation Right's Expiration Date will be set forth in the Award Agreement. A Stock Appreciation Right may expire before its expiration date under Sections 14 or 16(b) or under the Award Agreement

(d) Tolling of Expiration. If exercising an Stock Appreciation Right prior to its expiration is not permitted because of Applicable Laws, other than the rules of any stock exchange or quotation system on which the Common Stock is listed or quoted, the Stock Appreciation Right will remain exercisable until 30 days after the first date on which exercise would no longer be prevented by such provisions. If this would result in the Stock Appreciation Right remaining exercisable past its Expiration Date, then it will remain exercisable only until the end of the later of (x) the first day on which its exercise would not be prevented by Section 19(a) and (y) its Expiration Date.

## **8. Performance Stock Units and Performance Shares.**

(a) Award Agreement. Each Award of Performance Stock Units/Shares will be evidenced by an Award Agreement that will specify the time period during which the performance objectives or other vesting provisions will be measured ("Performance Period") and the material terms of the Award. The Administrator may set performance objectives based upon the achievement of Company-wide, divisional, business unit or individual goals (including, but not limited to, continued employment or service) or any other basis determined by the Administrator.

(b) Value of Performance Stock Units/Shares. Each Performance Stock Unit will have an initial value established by the Administrator on or before the Grant Date. Each Performance Share will have an initial value equal to the Fair Market Value on the Grant Date.

(c) Performance Objectives and Other Terms. The Administrator will set performance objectives or other vesting provisions (that may include continued employment or service). These objectives or vesting provisions may determine the number or value of Performance Stock Units/Shares paid out.

(d) Earning of Performance Stock Units/Shares. After an applicable Performance Period has ended, the holder of Performance Stock Units/Shares will be entitled to receive a payout of the number of Performance Stock Units/Shares earned by the Participant over the Performance Period. The Administrator may reduce or waive any performance objectives or other vesting provisions for such Performance Stock Unit/Share.

(e) Payment of Performance Stock Units/Shares. Payment of earned Performance Stock Units/Shares will be made when practicable after the end of the applicable Performance Period. Payment with respect to earned Performance Stock Units/Shares may be made in cash, in Shares of equivalent value, or any combination of cash and Shares, with the determination of form of payment made by the Administrator.

## **9. Performance Awards.**

(a) Award Agreement. Each Performance Award will be evidenced by an Award Agreement that will specify the Performance Period and the material terms of the Award. The Administrator may set performance objectives based upon the achievement of Company-wide, divisional, business unit or individual goals (including, but not limited to, continued employment or service) or any other basis determined by the Administrator.

(b) Value of Performance Awards. Each Performance Award's threshold, target, and maximum payout values will be established by the Administrator on or before the Grant Date.

(c) Performance Objectives and Other Terms. The Administrator will set performance objectives or other vesting provisions (that may include continued employment or service). These objectives or vesting provisions will determine the value of the payout for the Performance Awards.

(d) Earning of Performance Awards. After an applicable Performance Period has ended, the holder of a Performance Award will be entitled to receive a payout for the Performance Award earned by the Participant over the

Performance Period. The Administrator may reduce or waive any performance objectives or other vesting provisions for such Performance Award.

(e) Payment of Performance Awards. Payment of earned Performance Awards will be made when practicable after the end of the applicable Performance Period. Payment with respect to earned Performance Awards will be made in cash, in Shares of equivalent value, or any combination of cash and Shares, with the determination of form of payment made by the Administrator at the time of payment.

**10. Outside Director Limitations.**

No Outside Director may be granted, in any Fiscal Year, Awards with a grant date fair value (determined under U.S. generally accepted accounting principles) of more than \$1,000,000, increased to \$2,000,000 in connection with his or her initial service as an Outside Director. Awards granted to an individual while he or she was an Employee, or while he or she was a Consultant but not an Outside Director, will not count for purpose of this limitation.

**11. Leaves of Absence/Transfer Between Locations/Change of Status.**

(a) General. Unless otherwise provided by the Administrator, a Participant will not cease to be an Employee in the case of (i) any leave of absence approved by the Company or other member of the Company Group employing such Employee or (ii) any transfer between locations of the Company or members of the Company Group.

(b) Vesting. Unless a leave policy approved by the Administrator provides otherwise or it is otherwise required by Applicable Law, vesting of Awards granted under the Plan will continue only for Participants on an approved leave of absence.

(c) Incentive Stock Option Status. If a Participant's leave of absence approved by the Company or other member of the Company Group employing such Employee exceeds 3 months and reemployment upon expiration of such leave is not guaranteed by statute or contract, then 3 months following the 1st day of such leave the Participant will no longer be an employee for incentive stock option purposes. If reemployment upon expiration of such leave of absence is not guaranteed by statute or contract, then 6 months following the 1st day of such leave any Incentive Stock Option held by the Participant will cease to be treated as an Incentive Stock Option and will be treated for tax purposes as a Nonstatutory Stock Option.

(d) Protected Leaves.

(i) Any leave of absence by a Participant will be subject to any Applicable Laws that apply to leaves of absence.

(ii) For a Participant on a military leave, if required by Applicable Laws, vesting will continue for the longest period that vesting continues under any other statutory or Company-approved leave of absence. When a Participant returns from military leave (under conditions that would entitle him or her to such protection under the Uniformed Services Employment and Reemployment Rights Act), the Participant will be given vesting credit to the same extent as if the Participant had continued to provide services to the Company or other member of the Company Group, as applicable, through the military leave.

(e) Changes in Status. If a Participant who is an Employee has a reduction in hours worked, the Administrator may unilaterally:

(i) make a corresponding reduction in the number of Shares or cash amount subject to any portion of an Award that is scheduled to vest or become payable after the date of such extend leave or reduction in hours; and

(ii) in lieu of or in combination with such a reduction, extend the vesting or payment schedule applicable to such Award.

If any such reduction occurs, the Participant will have no right to any portion of the Award that is reduced.

(f) Determinations. The effect of a Company-approved leave of absence, a transfer, or a Participant's reduction in hours of employment or service on the vesting of an Award shall be determined, under policies reviewed by the Administrator, by the Company's senior human resources officer or other person performing that function or, with respect to Directors or Officers by the Compensation Committee of the Board, and any such determination will be final.

## **12. Transferability of Awards.**

(a) General Rule. Unless determined otherwise by the Administrator, or otherwise required by Applicable Laws, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Participant, only by the Participant. If the Administrator makes an Award transferable, the Award will be limited by any additional terms and conditions imposed by the Administrator. Any unauthorized transfer of an Award will be void.

(b) Domestic Relations Orders. If approved by the Administrator, an Award may be transferred under a domestic relations order, official marital settlement agreement or other divorce or separation instrument as permitted by Treasury Regulations Section 1.421-1(b)(2). An Incentive Stock Option may be converted into a Nonstatutory Stock Option as a result of such transfer.

(c) Limited Transfers for the Benefit of Family Members. The Administrator may permit an Award or Share issued under this Plan to be assigned or transferred subject to the applicable limitations, set forth in the General Instructions to Form S-8 Registration Statement under the Securities Act, if applicable, and any other Applicable Laws.

(d) Permitted Transferees. Any individual or entity to whom an Award is transferred will be subject to all of the terms and conditions applicable to the Participant who transferred the Award, including the terms and conditions in this Plan and the Award Agreement. If an Award is unvested then the service of the Participant will continue to determine whether the Award will vest and any Expiration Date.

## **13. Adjustments; Dissolution or Liquidation.**

(a) Adjustments. If any extraordinary dividend or other extraordinary distribution (whether in cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, issuance of warrants or other rights to acquire securities of the Company, other change in the corporate structure of the Company affecting the Shares, or any similar equity restructuring transaction, as that term is used in Statement of Financial Accounting Standards Board Accounting Standards Codification Topic 718 (or any of its successors) affecting the Shares occurs (including, without limitation, a Change in Control), the Administrator, to prevent diminution or enlargement of the benefits or potential benefits intended to be provided under the Plan, will adjust the number and class of shares that may be delivered under the Plan and/or the number, class, and price of shares covered by each outstanding Award, and the numerical Share limits in Section 2 in such a manner as it deems equitable. Notwithstanding the foregoing, the conversion of any convertible securities of the Company and ordinary course repurchases of shares or other securities of the Company will not be treated as an event that will require adjustment.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator will notify each Participant when practicable prior to the effective date of such proposed transaction. To the extent it has not been previously exercised, an Award will terminate immediately prior to the consummation of such proposed action.

## **14. Change in Control.**

(a) Administrator Discretion. If a Change in Control or a merger of the Company with or into another corporation or other entity occurs, each outstanding Award will be treated as the Administrator determines, including, without limitation, that such Award be continued by the successor corporation or a Parent or Subsidiary of the successor corporation.

(b) Identical Treatment Not Required. The Administrator need not take the same action or actions with respect to all Awards or portions thereof or with respect to all Participants. The Administrator may take different actions with respect to the vested and unvested portions of an Award. The Administrator will not be required to treat all Awards similarly in the transaction.

(c) Continuation. An Award will be considered continued if, following the Change in Control or merger:

(i) the Award confers the right to purchase or receive, for each Share subject to the Award immediately prior to the transaction, the consideration (whether stock, cash, or other securities or property) received in the transaction by holders of Shares for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration received by the holders of a majority of the outstanding Shares); provided that if the consideration received in the transaction is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon exercising an Option or Stock Appreciation Right or upon the payout of a Restricted Stock Unit, Performance Stock Unit, Performance Share or Performance Award, for each Share subject to such Award, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the transaction; or

(ii) the Award is terminated in exchange for an amount of cash and/or property, if any, equal to the amount that would have been attained upon the exercise of such Award or realization of the Participant's rights as of the date of the occurrence of the transaction. Any such cash or property may be subjected to any escrow applicable to holders of Common Stock in the Change of Control. If as of the date of the occurrence of the transaction the Administrator determines that no amount would have been attained upon the exercise of such Award or realization of the Participant's rights, then such Award may be terminated by the Company without payment. The amount of cash or property can be subjected to vesting and paid to the Participant over the original vesting schedule of the Award.

(iii) Notwithstanding anything in this Section 14(c) to the contrary, an Award that vests, is earned or paid-out upon the satisfaction of one or more performance goals will not be considered assumed if the Company or its successor modifies any of such performance goals without the Participant's consent; provided, however, a modification to such performance goals only to reflect the successor corporation's post-transaction corporate structure will not invalidate an otherwise valid Award assumption.

(d) The Administrator will have authority to modify Awards in connection with a Change in Control or merger:

(i) in a manner that causes them to lose their tax-preferred status,

(ii) to terminate any right a Participant has to exercise an Option prior to vesting in the Shares subject to the Option (i.e., "early exercise"), so that following the closing of the transaction the Option may only be exercised to the extent it is vested;

(iii) to reduce the Exercise Price subject to the Award in a manner that is disproportionate to the increase in the number of Shares subject to the Award, as long as the amount that would be received upon exercise of the Award immediately before and immediately following the closing of the transaction is equivalent and the adjustment complies with Treasury Regulation Section 1.409A-1(b)(v)(D); and

(iv) to suspend a Participant's right to exercise an Option during a limited period of time preceding and or following the closing of the transaction without Participant consent if such suspension is administratively necessary or advisable to permit the closing of the transaction.

(e) Non-Continuation. If the successor corporation does not continue for an Award (or some portion such Award), the Participant will fully vest in (and have the right to exercise) 100% of the then-unvested Shares subject to his or her outstanding Options and Stock Appreciation Rights, all restrictions on 100% of the Participant's outstanding Restricted Stock and Restricted Stock Units will lapse, and, regarding 100% of Participant's outstanding Awards with performance-based vesting, all performance goals or other vesting criteria will be treated as achieved at 100% of target levels and all other terms and conditions met. In no event will vesting of an Award accelerate as to more than 100% of the Award. If Options or Stock Appreciation Rights are not continued when a Change in Control or a merger of the Company with or into another corporation or other entity occurs, the Administrator will notify the Participant in writing or electronically that the Participant's vested Options or Stock Appreciation Rights (after considering the foregoing vesting acceleration, if any) will be exercisable for a period of time determined by the Administrator in its sole discretion and all of the Participant's Options or Stock Appreciation Rights will terminate upon the expiration of such period (whether vested or unvested).

(f) Outside Director Awards. With respect to Awards granted to an Outside Director that are continued, if on the date of or following such continuation the Participant's status as a Director or a director of the successor corporation, as applicable, is terminated other than upon a voluntary resignation by the Participant that is not at the request of the acquirer, then the Participant will fully vest in and have the right to exercise Options and/or Stock Appreciation Rights as to all of the Shares underlying such Award, including those Shares not otherwise vested or exercisable, all restrictions on Restricted Stock and Restricted Stock Units will lapse, and, with respect to Awards with performance-based vesting, all performance goals or other vesting criteria will be treated as achieved at 100% of target levels and all other terms and conditions met.

**15. Tax Matters.**

(a) Withholding Requirements. Prior to the delivery of any Shares or cash under an Award (or exercise thereof) or such earlier time as any tax withholding obligations are due, the Company may deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy any taxes (including the Participant's social tax obligations) required to be withheld with respect to such Award (or exercise thereof).

(b) Withholding Arrangements. The Administrator, in its sole discretion and under such procedures as it may specify from time to time, may permit or may require a Participant to satisfy such tax withholding obligations, in whole or in part by (without limitation) (i) paying cash, (ii) electing to have the Company withhold otherwise deliverable cash (including cash from the sale of Shares issued to Participant) or Shares having a fair market value equal to the minimum statutory amount required to be withheld or a greater amount if that would not result in unfavorable financial accounting treatment, (iii) delivering to the Company already-owned Shares having a fair market value equal to the minimum statutory amount required to be withheld, or (iv) requiring the Participant to engage in a cashless exercise transaction (whether through a broker or otherwise) implemented by the Company in connection with the Plan. The fair market value of the Shares to be withheld or delivered will be determined as of the date the taxes must be withheld.

(c) Compliance With Code Section 409A. Except as otherwise determined by the Administrator, it is intended that Awards will be designed and operated so that they are either exempt from the application of Code Section 409A or comply with any requirements necessary to avoid the imposition of additional tax under Code Section 409A(a)(1)(B) so that the grant, payment, settlement or deferral will not be subject to the additional tax or interest applicable under Code Section 409A and the Plan and each Award Agreement will be interpreted consistent with this intent. This Section 15(c) is not a guarantee to any Participant of the consequences of his or her Awards.

**16. Other Terms.**

(a) No Effect on Employment or Service. Neither the Plan nor any Award will confer upon a Participant any right regarding continuing the Participant's relationship as a Service Provider with the Company or member of the Company Group, nor will they interfere with the Participant's right, or the Participant's employer's right, to terminate such relationship with or without cause, to the extent permitted by Applicable Laws.

(b) Forfeiture Events.

(i) All Awards granted under the Plan will be subject to recoupment under any clawback policy that the Company is required to adopt pursuant to the listing standards of any national securities exchange or association on which the Company's securities are listed or as is otherwise required by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other Applicable Laws. In addition, the Administrator may impose such other clawback, recovery or recoupment provisions in an Award Agreement as the Administrator determines necessary or appropriate, including but not limited to a reacquisition right regarding previously acquired Shares or other cash or property. Unless this Section 16(b) is specifically mentioned and waived in an Award Agreement or other document, no recovery of compensation under a clawback policy or otherwise will give a Participant the right to resign for "good reason" or "constructive termination" (or similar term) under any agreement with the Company.

(ii) The Administrator may specify in an Award Agreement that the Participant's rights, payments, and benefits with respect to an Award will be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events may include, but will not be limited to, termination of such Participant's status as Service Provider for cause or any act by a Participant, whether before or after such Participant's Termination Status Date, that would constitute cause for termination of such Participant's status as a Service Provider.

(iii) If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company, as a result of misconduct, with any financial reporting requirement under securities laws, any Participant who (i) knowingly or through gross negligence engaged in the misconduct or who knowingly or through gross negligence failed to prevent the misconduct or (ii) is one of the individuals subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002, must reimburse the Company the amount of any payment in settlement of an Award earned or accrued during the 12-month period following the first public issuance or filing with the United States Securities and Exchange Commission (whichever first occurred) of the financial document embodying such financial reporting requirement.

**17. Term of Plan.**

Subject to Section 20, the Plan will become effective upon the business day immediately prior to the Registration Date. It will continue in effect until terminated under Section 18, but no Incentive Stock Options may be granted after 10 years from the date the Plan is adopted by the Board and Section 2(b) will operate only until the 10<sup>th</sup> anniversary of the date the Plan is adopted by the Board.

**18. Amendment and Termination of the Plan.**

(a) Amendment and Termination. The Board or Compensation Committee of the Board may amend, alter, suspend or terminate the Plan.

(b) Stockholder Approval. The Company will obtain stockholder approval of any Plan amendment to the extent necessary or desirable to comply with Applicable Laws.

(c) Consent of Participants Generally Required. Subject to Section 18(d) below, no amendment, alteration, suspension or termination of the Plan or an Award under it will materially impair the rights of any Participant without a signed, written agreement between the Participant and the Company. Termination of the Plan will not affect the Administrator's ability to exercise the powers granted to it regarding Awards granted under the Plan prior to such termination.

(d) Exceptions to Consent Requirement.

(i) A Participant's rights will not be deemed to have been impaired by any amendment, alteration, suspension or termination if the Administrator, in its sole discretion, determines that the amendment, alteration, suspension or termination taken as a whole, does not materially impair the Participant's rights; and

(ii) Subject to any limitations of Applicable Laws, the Administrator may amend the terms of any one or more Awards without the affected Participant's consent even if it does materially impair the Participant's right if such amendment is done

(1) in a manner permitted under the Plan,

(2) to maintain the qualified status of the Award as an Incentive Stock Option under Code Section 422,

(3) to change the terms of an Incentive Stock Option, if such change results in impairment of the Award only because it impairs the qualified status of the Award as an Incentive Stock Option under Code Section 422,

(4) to clarify the manner of exemption from Code Section 409A or compliance with any requirements necessary to avoid the imposition of additional tax under Code Section 409A(a)(1)(B), or

(5) to comply with other Applicable Laws.

**19. Conditions Upon Issuance of Shares.**

(a) Legal Compliance. Shares will not be issued pursuant to the exercise of an Award unless the exercise of such Award and the issuance and delivery of such Shares will comply with Applicable Laws. If required by the Administrator,

issuance will be further subject to the approval of counsel for the Company with respect to such compliance. The inability of the Company to obtain authority from any regulatory body having jurisdiction or to complete or comply with the requirements of any Applicable Laws will relieve the Company of any liability regarding the failure to issue or sell such Shares as to which such authority, registration, qualification or rule compliance was not obtained and the Administrator reserves the authority, without the consent of a Participant, to terminate or cancel Awards with or without consideration in such a situation.

(b) Investment Representations. As a condition to the exercise of an Award, the Company may require the person exercising such Award to represent and warrant during any such exercise that the Shares are being purchased only for investment and with no present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

(c) Failure to Accept Award. If a Participant has not accepted an Award or has not taken all administrative and other steps (e.g. setting up an account with a broker designated by the Company) necessary for the Company to issue Shares upon the vesting, exercise, or settlement of the Award prior to the first date the Shares subject such Award are scheduled to vest, then the Award will be cancelled on such date and the Shares subject to such Award immediately will revert to the Plan for no additional consideration unless otherwise provided by the Administrator.

## **20. Stockholder Approval.**

The Plan will be subject to approval by the stockholders of the Company within 12 months after the date the Plan is adopted by the Board. Such stockholder approval will be obtained in the manner and to the degree required under Applicable Laws.

## **21. Definitions.**

The following definitions are used in this Plan:

(a) "Applicable Laws" means the requirements relating to the administration of equity-based awards and the related issuance of Shares under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and, only to the extent applicable with respect to an Award or Awards, the tax, securities or exchange control laws of any jurisdictions other than the United States where Awards are, or will be, granted under the Plan. Reference to a section of an Applicable Law or regulation related to that section shall include such section or regulation, any valid regulation issued under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation.

(b) "Award" means, individually or collectively, a grant under the Plan of Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Stock Units, Performance Shares, or Performance Awards.

(c) "Award Agreement" means the written or electronic agreement setting forth the terms applicable to an Award granted under the Plan. The Award Agreement is subject to the terms of the Plan.

(d) "Board" means the Board of Directors of the Company.

(e) "Change in Control" means the occurrence of any of the following events:

(i) A change in the ownership of the Company which occurs on the date that any one person, or more than one person acting as a group ("Person"), acquires ownership of the stock of the Company that, with the stock held by such Person, constitutes more than 50% of the total voting power of the stock of the Company; provided, that for this subsection, the acquisition of additional stock by any one Person, who prior to such acquisition is considered to own more than 50% of the total voting power of the stock of the Company will not be considered a Change in Control. Further, if the stockholders of the Company immediately before such change in ownership continue to retain immediately after the change in ownership, in substantially the same proportions as their ownership of shares of the Company's voting stock immediately prior to the change in ownership, direct or indirect beneficial ownership of 50% or more of the total voting power of the stock of the Company, such event shall not be considered a Change in Control under this Section 21(e)(i). For this purpose, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting securities of one or more corporations or other

business entities which own the Company, as the case may be, either directly or through one or more subsidiary corporations or other business entities; or

(ii) A change in the effective control of the Company which occurs on the date a majority of members of the Board is replaced during any 12-month period by Directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the appointment or election. For this Section 21(e)(ii), if any Person is in effective control of the Company, the acquisition of additional control of the Company by the same Person will not be considered a Change in Control; or

(iii) A change in the ownership of a substantial portion of the Company's assets which occurs on the date that any Person acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such Person or Persons) assets from the Company that have a total gross fair market value equal to or more than 50% of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions; provided, that for this Section 21(e)(iii), the following will not constitute a change in the ownership of a substantial portion of the Company's assets:

(1) a transfer to an entity controlled by the Company's stockholders immediately after the transfer, or

(2) a transfer of assets by the Company to:

(A) a stockholder of the Company (immediately before the asset transfer) in exchange for or with respect to

the Company's stock,

(B) an entity, 50% or more of the total value or voting power of which is owned, directly or indirectly, by

the Company,

(C) a Person, that owns, directly or indirectly, 50% or more of the total value or voting power of all the

outstanding stock of the Company, or

(D) an entity, at least 50% of the total value or voting power of which is owned, directly or indirectly, by a Person described in subsections 21(e)(iii)(2)(A) to 21(e)(iii)(2)(C).

For this definition, gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets. For this definition, persons will be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company.

A transaction will not be a Change in Control:

(iv) unless the transaction qualifies as a change in control event within the meaning of Code Section 409A; or

(v) if its sole purpose is to (1) change the state of the Company's incorporation, or (2) create a holding company owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

(f) "Code" means the Internal Revenue Code of 1986. Reference to a section of the Code or regulation related to that section shall include such section or regulation, any valid regulation issued under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation.

(g) "Committee" means a committee of Directors or of other individuals satisfying Applicable Laws appointed by the Board.

(h) "Common Stock" means the Class A common stock of the Company.

(i) "Company" means Square, Inc., a Delaware corporation, or any of its successors.

(j) “Company Group” means the Company, any Parent or Subsidiary of the Company, and any entity that, from time to time and at the time of any determination, directly or indirectly, is in control of, is controlled by or is under common control with the Company.

(k) “Consultant” means any natural person engaged by a member of the Company Group to render bona fide services to such entity, provided the services (i) are not in connection with the offer or sale of securities in a capital raising transaction, and (ii) do not directly promote or maintain a market for the Company’s securities. A Consultant must be a person to whom the issuance of Shares registered on Form S-8 under the Securities Act is permitted.

(l) “Director” means a member of the Board.

(m) “Employee” means any person, including Officers and Directors, employed by the Company or any member of the Company Group. However, with respect to Incentive Stock Options, an Employee must be employed by the Company or any Parent or Subsidiary of the Company. Notwithstanding Stock Options granted to individuals not providing services to the Company or a subsidiary of the Company should be carefully structured to comply with the payment timing rule of Code Section 409A. Neither service as a Director nor payment of a director’s fee by the Company will constitute “employment” by the Company.

(n) “Exchange Act” means the U.S. Securities Exchange Act of 1934.

(o) “Exchange Program” means a program under which (i) outstanding Awards are surrendered or cancelled in exchange for awards of the same type (which may have higher or lower Exercise Prices and different terms), awards of a different type, and/or cash, (ii) Participants would have the opportunity to transfer any outstanding Awards to a financial institution or other person or entity selected by the Administrator, and/or (iii) the Exercise Price of an outstanding Award is increased or reduced. The Administrator will determine the terms and conditions of any Exchange Program in its sole discretion.

(p) “Expiration Date” means the last possible day on which an Option or Stock Appreciation Right may be exercised. Any exercise must be completed by midnight California Time between the Expiration Date and the following date.

(q) “Fair Market Value” means, as of any date, the value of a Share, determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the New York Stock Exchange, the NASDAQ Global Select Market, the NASDAQ Global Market or the NASDAQ Capital Market of The NASDAQ Stock Market, the Fair Market Value will be the closing sales price for a Share (or the closing bid, if no sales were reported) as quoted on such exchange or system on the day of determination, as reported by such source as the Administrator determines to be reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share will be the mean between the high bid and low asked prices for the Common Stock on the day of determination (or, if no bids and asks were reported on that date on the last Trading Day such bids and asks were reported), as reported by such source as the Administrator determines to be reliable;

(iii) For any Awards granted on the Registration Date, the Fair Market Value will be the initial price to the public set forth in the final prospectus included within the registration statement in Form S-1 filed with the Securities and Exchange Commission for the initial public offering of the Company’s Common Stock; or

(iv) Absent an established market for the Common Stock, the Fair Market Value will be determined in good faith by the Administrator.

Notwithstanding the foregoing, if the determination date for the Fair Market Value occurs on a weekend, holiday or other non-Trading Day, the Fair Market Value will be the price as determined under subsections (i) or (ii) above on the immediately preceding Trading Day, unless otherwise determined by the Administrator. In addition, for purposes of determining the fair market value of shares for any reason other than the determination of the Exercise Price of Options or Stock Appreciation Rights, fair market value will be determined by the Administrator in a manner compliant with Applicable Laws and applied consistently for such purpose. Note that the determination of fair market value for purposes of tax withholding may be made in the Administrator’s sole discretion subject to Applicable Laws and is not required to be consistent with the determination of Fair Market Value for other purposes.

- (r) "Fiscal Year" means a fiscal year of the Company.
- (s) "Incentive Stock Option" means an Option that is intended to qualify and does qualify as an incentive stock option within the meaning of Code Section 422.
- (t) "Nonstatutory Stock Option" means an Option that by its terms does not qualify or is not intended to qualify as an Incentive Stock Option.
- (u) "Officer" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act.
- (v) "Option" means a stock option to acquire Shares granted under Section 4.
- (w) "Outside Director" means a Director who is not an Employee.
- (x) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Code Section 424(e).
- (y) "Participant" means the holder of an outstanding Award.
- (z) "Performance Awards" means an Award which may be earned in whole or in part upon attainment of performance goals or other vesting criteria as the Administrator may determine and which will be settled for cash, Shares or other securities or a combination of the foregoing under Section 9.
- (aa) "Performance Share" means an Award denominated in Shares which may be earned in whole or in part upon attainment of performance goals or other vesting criteria as the Administrator may determine under Section 8.
- (bb) "Performance Stock Units" means an Award which may be earned in whole or in part upon attainment of performance goals or other vesting criteria as the Administrator may determine and which may be settled for cash, Shares or other securities or a combination of the foregoing under Section 8.
- (cc) "Period of Restriction" means the period during which the transfer of Shares of Restricted Stock is subject to restrictions and therefore, the Shares are subject to a substantial risk of forfeiture. Such restrictions may be based on the passage of time, the achievement of target levels of performance, or the occurrence of other events as determined by the Administrator.
- (dd) "Plan" means this 2015 Equity Incentive Plan, as amended and restated.
- (ee) "Registration Date" means the effective date of the first registration statement filed by the Company and declared effective under Section 12(b) of the Exchange Act, with respect to any class of the Company's securities.
- (ff) "Restricted Stock" means Shares issued under an Award granted under Section 5 or issued as a result of the early exercise of an Option.
- (gg) "Restricted Stock Unit" means a bookkeeping entry representing an amount equal to the Fair Market Value, granted under Section 6. Each Restricted Stock Unit represents an unfunded and unsecured obligation of the Company.
- (hh) "Securities Act" means Securities Act of 1933, as amended.
- (ii) "Service Provider" means an Employee, Director or Consultant.
- (jj) "Share" means a share of Common Stock.

- (kk) "Stock Appreciation Right" means an Award granted (alone or in connection with an Option) under Section 7.
- (ll) "Subsidiary" means a "subsidiary corporation" as defined in Code Section 424(f).
- (mm) "Trading Day" means a day on which the applicable stock exchange or national market system is open for trading.

SQUARE, INC.

2015 EQUITY INCENTIVE PLAN

NOTICE OF STOCK OPTION GRANT AND STOCK OPTION AGREEMENT

Capitalized terms that are not defined in this Notice of Stock Option Grant and Stock Option Agreement (the “**Notice of Grant**”), the Terms and Conditions of Stock Option Grant, or any of the exhibits to these documents (all together, the “**Agreement**”) have the meanings given to them in the Square, Inc. 2015 Equity Incentive Plan (the “**Plan**”).

The Participant has been granted an Option according to the terms below and subject to the terms and conditions of the Plan and this Agreement:

Participant \_\_\_\_\_

Grant Number \_\_\_\_\_

Grant Date \_\_\_\_\_

Vesting Start Date \_\_\_\_\_

Number of Shares Granted \_\_\_\_\_

Exercise Price per Share \_\_\_\_\_

Total Exercise Price \_\_\_\_\_

Type of Option    \_\_\_\_ Incentive Stock Option  
                          \_\_\_\_ Nonstatutory Stock Option

Expiration Date \_\_\_\_\_

Vesting Schedule :

Unless the vesting is accelerated, this Option will be exercisable to the extent vested on the following schedule:

If the Participant continues to be a Service Provider through each such date, 25% of this Option will vest on the 1-year anniversary of the Vesting Start Date, and 1/48<sup>th</sup> of this Option will vest each month after that anniversary on the same day of the month as the Vesting Start Date (or if there is no corresponding day in a given month, then on the last day of that month). All vesting will be rounded in accordance with Section 3(f) of the Plan.

If the Participant ceases to be a Service Provider for any or no reason before he or she fully vests in this Option, the unvested portion of this Option will terminate according to the terms of Section 4 of this Agreement.

Exercise of Option :

- (a) If the Participant dies or his or her status as a Service Provider is terminated due to his or her Disability, the vested

portion of this Option will remain exercisable for 12 months after the Termination of Status Date. For any other termination of status as a Service Provider, the vested portion of this Option will remain exercisable for 3 months after the Termination of Status Date.

- (b) If there is a Change in Control or merger of the Company, Section 14 of the Plan may further limit this Option's exercisability.
- (c) This Option will not be exercisable after the Expiration Date, unless Section 4(g) of the Plan (which tolls expiration in very limited cases when there are legal restrictions on exercise) permits later exercise.

The Participant's signature below indicates that:

- (i) He or she agrees that this Option is granted under and governed by the terms and conditions of the Plan and this Agreement, including their exhibits and appendices.
- (ii) He or she understands that the Company is not providing any tax, legal, or financial advice and is not making any recommendations regarding his or her participation in the Plan or his or her acquisition or sale of Shares.
- (iii) He or she has reviewed the Plan and this Agreement, has had an opportunity to obtain the advice of personal tax, legal, and financial advisors prior to signing this Agreement, and fully understands all provisions of the Plan and Agreement. He or she will consult with his or her own personal tax, legal, and financial advisors before taking any action related to the Plan.
- (iv) He or she has read and agrees to each provision of Section 11 of this Agreement.
- (v) He or she will notify the Company of any change to the contact address below.

PARTICIPANT

\_\_\_\_\_  
Signature

Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

## EXHIBIT A

### TERMS AND CONDITIONS OF STOCK OPTION GRANT

1. Grant. The Company grants the Participant an Option to purchase Shares of Common Stock as described in the Notice of Grant. If there is a conflict between the Plan, this Agreement, or any other agreement with the Participant governing this Option, those documents will take precedence and prevail in the following order: (a) the Plan, (b) the Agreement, and (c) any other agreement between the Company and the Participant governing this Option.

If the Notice of Grant designates this Option as an Incentive Stock Option (“**ISO**”), this Option is intended to qualify as an ISO under Code Section 422. Even if this Option is designated an ISO, to the extent it first become exercisable as to more than \$100,000 in any calendar year, the portion in excess of \$100,000 is not an ISO under Code Section 422(d) and that portion will be a Nonstatutory Stock Option (“**NSO**”). In addition, if the Participant exercises the Option after 3 months have passed since he or she ceased to be an employee of the Company or a Parent or Subsidiary of the Company, it will no longer be an ISO. If there is any other reason this Option (or a portion of it) will not qualify as an ISO, to the extent of such nonqualification, the Option will be an NSO. The Participant understands that he or she will have no recourse against the Administrator, any member of the Company Group, or any officer or director of a member of the Company Group if any portion of this Option is not an ISO.

2. Vesting. This Option will only be exercisable (also referred to as vested) under the Vesting Schedule in the Notice of Grant, Section 3 of this Agreement, or Section 14 of the Plan. Shares scheduled to vest on a certain date or upon the occurrence of a certain condition will not vest unless the Participant continues to be a Service Provider until the time such vesting is scheduled to occur. The Administrator may modify the Vesting Schedule according to its authority under the Plan if the Participant takes a leave of absence or has a reduction in hours worked.

3. Administrator Discretion. The Administrator may accelerate the vesting of any portion of this Option. In that case, this Option will be vested as of the date and to the extent specified by the Administrator.

4. Forfeiture upon Termination of Status as a Service Provider. Upon the Participant’s termination as a Service Provider for any reason, this Option will immediately stop vesting, and on the 30<sup>th</sup> day following the Termination of Status Date (or any earlier date on or following the Termination of Status Date determined by the Administrator), any portion of this Option that has not yet vested will be immediately forfeited for no consideration, subject to Applicable Laws. The date of the Participant’s termination as a Service Provider is detailed in Section 3(c) of the Plan.

5. Death of Participant. Any distribution or delivery to be made to the Participant under this Agreement will, if he or she is then deceased, be made to the administrator or executor of his or her estate or, if the Administrator permits, his or her designated beneficiary. Any such transferee must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations that apply to the transfer.

6. Exercise of Option.

(a) **Right to Exercise**. This Option may be exercised only before its Expiration Date and only under the Plan and this Agreement.

(b) **Method of Exercise** . To exercise this Option, the Participant must deliver and the Administrator must receive an exercise notice according to procedures determined by the Administrator. The exercise notice must:

- (i) state the number of Shares as to which this Option is being exercised (“ **Exercised Shares** ”),
- (ii) make any representations or agreements required by the Company,
- (iii) be accompanied by a payment of the total exercise price for all Exercised Shares, and
- (iv) be accompanied by a payment of all required Tax-Related Items (defined in Section 8(a) of this Agreement) for all Exercised Shares.

The Option is exercised when both the exercise notice and payments due under Sections 6(b)(iii) and 6(b)(iv) have been received by the Company for all Exercised Shares. The Administrator may designate a particular exercise notice to be used, but until a designation is made, the exercise notice attached to this Agreement as Exhibit C may be used.

7. **Method of Payment** . The Participant may pay the exercise price for Exercised Shares by any of the following methods or a combination of methods:

- (a) cash;
- (b) check;
- (c) wire transfer;
- (d) consideration received by the Company under a formal cashless exercise program adopted by the Company; or
- (e) surrender of other Shares, as long as the Company determines that accepting such Shares does not result in any adverse accounting consequences to the Company. If Shares are surrendered, the value of those Shares will be the Fair Market Value for those Shares on the date they are surrendered.

A non-U.S. resident’s methods of exercise may be restricted by the terms and condition of any appendix to this Agreement for the Participant’s country (the “ **Appendix** ”).

8. **Tax Obligations** .

(a) **Tax Withholding** .

(i) No Shares will be issued to the Participant until he or she makes satisfactory arrangements (as determined by the Administrator) for the payment of income, employment, social insurance, National Insurance Contributions, payroll tax, fringe benefit tax, payment on account, or other tax-related items related to his or her participation in the Plan and legally applicable to him or her that the Administrator determines must be withheld (“ **Tax-Related Items** ”), including those that result from the grant, vesting, or exercise of this Option, the subsequent sale of Shares acquired under this Option or the receipt of any dividends. If the Participant is a non-U.S. employee, the method of payment of Tax-Related Items may be restricted by any Appendix. If the Participant fails to make satisfactory arrangements for the payment of any Tax-Related Items under this Agreement at the time of an attempted Option exercise, the Company may refuse to honor the exercise and refuse to deliver the Shares.

(ii) The Company has the right (but not the obligation) to satisfy any Tax-Related Items by withholding from proceeds of a sale of Shares acquired upon the exercise of this Option arranged by the Company (on the Participant's behalf pursuant to this authorization without further consent), and this will be the method by which such tax withholding obligations are satisfied until the Company determines otherwise, subject to Applicable Laws.

(iii) The Company has the right (but not the obligation) to satisfy any Tax-Related Items by reducing the number of Shares otherwise deliverable to the Participant.

(iv) The Participant authorizes the Company and/or any member(s) of the Company Group for whom he or she is performing services (each, an " **Employer** ") to withhold any Tax-Related Items legally payable by the Participant from his or her wages or other cash compensation paid to the Participant by the Company and/or the Employer(s) or from proceeds of the sale of Shares.

(v) Further, if the Participant is subject to taxation in more than one jurisdiction between the Grant Date and the date of any relevant taxable or tax withholding event, the Company and/or the Employer(s) or former Employer(s) may withhold or account for tax in greater than one jurisdiction.

(vi) Regardless of any action of the Company or the Employer(s), the Participant acknowledges that the ultimate liability for all Tax-Related Items is and remains his or her responsibility and may exceed the amount actually withheld by the Company or the Employer(s). The Participant further acknowledges that the Company and the Employer(s) (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Option; and (2) do not commit to and are under no obligation to structure the terms of the grant or any aspect of this Option to reduce or eliminate his or her liability for Tax-Related Items or achieve any particular tax result.

**(b) Tax Reporting** . This Section 8(b) applies if the Participant is a U.S. taxpayer. If this Option is partially or wholly an ISO, and if the Participant sells or otherwise disposes of any the Shares acquired by exercising the ISO portion on or before the later of (i) the date 2 years after the Grant Date, or (ii) the date 1 year after the date of exercise, he or she may be subject to withholding of Tax-Related Items by the Company on the compensation income recognized by him or her and must immediately notify the Company in writing of the disposition.

9. **Forfeiture or Clawback** . This Option (including any proceeds, gains or other economic benefit received by the Participant from any subsequent sale of Shares resulting from the exercise) will be subject to any compensation recovery or clawback policy implemented by the Company before or after the date of this Agreement. This includes any clawback policy adopted to comply with the requirements of Applicable Laws.

10. **Rights as Stockholder** . The Participant's rights as a stockholder of the Company (including the right to vote and to receive dividends and distributions) will not begin until Shares have been issued and recorded on the records of the Company or its transfer agents or registrars.

11. **Acknowledgements and Agreements** . The Participant's signature on the Notice of Grant accepting this Option indicates that:

(a) HE OR SHE ACKNOWLEDGES AND AGREES THAT THE VESTING OF THIS OPTION IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AND THAT BEING HIRED, GRANTED THIS OPTION, AND EXERCISING THE OPTION WILL NOT RESULT IN VESTING.

(b) HE OR SHE FURTHER ACKNOWLEDGES AND AGREES THAT THIS OPTION AND AGREEMENT DO NOT CREATE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND DOES NOT INTERFERE IN ANY WAY WITH HIS OR HER RIGHT OR THE RIGHT OF THE EMPLOYER(S) TO TERMINATE HIS OR HER RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE, SUBJECT TO APPLICABLE LAWS.

(c) The Participant agrees that this Agreement and its incorporated documents reflect all agreements on its subject matters and that he or she is not accepting this Agreement based on any promises, representations, or inducements other than those reflected in the Agreement.

(d) The Participant understands that exercise of this Option is governed strictly by Sections 6, 7, and 8 of this Agreement and that failure to comply with those Sections could result in the expiration of this Option, even if an attempt was made to exercise.

(e) The Participant agrees that the Company's delivery of any documents related to the Plan or this Option (including the Plan, the Agreement, the Plan's prospectus and any reports of the Company provided generally to the Company's stockholders) to him or her may be made by electronic delivery, which may include the delivery of a link to a Company intranet or the Internet site of a third party involved in administering the Plan, the delivery of the document via e-mail, or any other means of electronic delivery specified by the Company. If the attempted electronic delivery of such documents fails, the Participant will be provided with a paper copy of the documents. The Participant acknowledges that he or she may receive from the Company a paper copy of any documents that were delivered electronically at no cost to him or her by contacting the Company by telephone or in writing. The Participant may revoke his or her consent to the electronic delivery of documents or may change the electronic mail address to which such documents are to be delivered (if the Participant has provided an electronic mail address) at any time by notifying the Company of such revoked consent or revised e-mail address by telephone, postal service or electronic mail. Finally, the Participant understands that he or she is not required to consent to electronic delivery of documents.

(f) The Participant may deliver any documents related to the Plan or this Option to the Company by e-mail or any other means of electronic delivery approved by the Administrator, but he or she must provide the Company or any designated third party administrator with a paper copy of any documents if his or her attempted electronic delivery of such documents fails.

(g) The Participant accepts that all good faith decisions or interpretations of the Administrator regarding the Plan and Awards under the Plan are binding, conclusive, and final. No member of the Administrator will be personally liable for any such decisions or interpretations.

(h) The Participant agrees that the Plan is established voluntarily by the Company, is discretionary in nature, and may be amended, suspended, or terminated by the Company at any time, to the extent permitted by the Plan.

(i) The Participant agrees that the grant of this Option is voluntary and occasional and does not create any contractual or other right to receive future grants of options, or benefits in lieu of options, even if options have been granted in the past.

(j) The Participant agrees that any decisions regarding future Awards will be in the Company's sole discretion.

(k) The Participant agrees that he or she is voluntarily participating in the Plan.

- (l) The Participant agrees that this Option and any Shares acquired under the Plan are not intended to replace any pension rights or compensation.
- (m) The Participant agrees that this Option, any Shares acquired under the Plan, and their income and value of same are not part of normal or expected compensation for any purpose, including for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, holiday pay, long-service awards, pension or retirement or welfare benefits, or similar payments.
- (n) The Participant agrees that the future value of the Shares underlying this Option is unknown, indeterminable, and cannot be predicted with certainty.
- (o) The Participant understands that if the underlying Shares do not increase in value, this Option will have no intrinsic monetary value.
- (p) The Participant understands that if this Option is exercised, the value of each Share received on exercise may increase or decrease in value, even below the Exercise Price per Share.
- (q) The Participant agrees that, for purposes of this Option, his or her engagement as a Service Provider is terminated as of the Termination of Status Date (regardless of the reason for such termination and whether or not the termination is later found to be invalid or in breach of employment laws in the jurisdiction where he or she is a Service Provider or the terms of his or her service agreement, if any), unless otherwise expressly provided in this Agreement or determined by the Administrator.
- (r) The Participant agrees that any right to vest in this Option terminates as of the Termination of Status Date and will not be extended by any notice period (e.g., the period that he or she is a Service Provider would not include any contractual notice period or any period of “garden leave” or similar period mandated under employment laws (including common law, if applicable) in the jurisdiction where he or she is a Service Provider or by his or her service agreement or employment agreement, if any, unless he or she is providing bona fide services during such time).
- (s) The Participant agrees that the period during which the Participant may exercise the vested portion of this Option after a termination of his or her status as a Service Provider (if any) will start as of the Termination of Status Date (regardless of the reason for such termination and whether or not the termination is later found to be invalid or in breach of employment laws in the jurisdiction where he or she is a Service Provider or the terms of his or her service agreement, if any), unless otherwise expressly provided in this Agreement or determined by the Administrator.
- (t) The Participant agrees that the Administrator has the exclusive discretion to determine when he or she is no longer actively providing services for purposes of this Option (including whether he or she is still considered to be providing services while on a leave of absence).
- (u) The Participant agrees that no member of the Company Group is liable for any foreign exchange rate fluctuation between the Participant’s local currency and the United States Dollar that may affect the value of this Option or of any amounts due to him or her from the exercise of this Option or the subsequent sale of any Shares acquired upon exercise.
- (v) The Participant has read and agrees to the Data Privacy Provisions of Section 12 of this Agreement.
- (w) The Participant agrees that he or she has no claim or entitlement to compensation or damages from any forfeiture of this Option resulting from the termination of his or her status as a Service Provider (for any reason whatsoever, whether or not later found to be invalid or in breach of employment laws in the jurisdiction where he or she is a Service Provider or the terms of his or her service agreement, if any), and in consideration of the grant of this Option to which he or she is otherwise not entitled, he or she irrevocably agrees never to institute any claim against the Company or any member of the Company Group, waives his or her ability (if any) to bring any such claim, and releases the Company and all members of the Company Group from any such claim. If any such claim is nevertheless allowed by a court of competent jurisdiction, then the Participant’s participation in the Plan constitutes his or her irrevocable agreement to not pursue such claim and to execute any and all documents necessary to request dismissal or withdrawal of such claim.

12. Data Privacy.

(a) *The Participant voluntarily consents to the collection, use and transfer, in electronic or other form, of his or her personal data as described in this Agreement and any other Award materials (“ Data ”) by and among, as applicable, the Employer(s), the Company and any member of the Company Group for the exclusive purpose of implementing, administering, and managing his or her participation in the Plan.*

(b) *The Participant understands that the Company and the Employer(s) may hold certain personal information about him or her, including, but not limited to, his or her name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of all equity awards or any other entitlement to stock awarded, canceled, exercised, vested, unvested or outstanding in his or her favor, for the exclusive purpose of implementing, administering, and managing the Plan.*

(c) *The Participant understands that Data will be transferred to one or more a stock plan service provider(s) selected by the Company, which may assist the Company with the implementation, administration, and management of the Plan. The Participant understands that the recipients of the Data may be located in the United States or elsewhere, and that the recipient’s country (e.g., the United States) may have different data privacy laws and protections than his or her country. The Participant understands that if he or she resides outside the United States, he or she may request a list with the names and addresses of any potential recipients of the Data by contacting his or her local human resources representative. The Participant authorizes the Company and any other possible recipients that may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purposes of implementing, administering and managing his or her participation in the Plan.*

(d) *The Participant understands that Data will be held only as long as is necessary to implement, administer and manage his or her participation in the Plan. The Participant understands that if he or she resides in certain jurisdictions outside the United States, to the extent required by Applicable Laws, he or she may, at any time, request access to Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents given by accepting this Option, in any case without cost, by contacting in writing his or her local human resources representative. Further, the Participant understands that he or she is providing these consents on a purely voluntary basis. If the Participant does not consent or if he or she later seeks to revoke his or her consent, his or her engagement as a Service Provider with the Employer(s) will not be adversely affected; the only consequence of refusing or withdrawing his or her consent is that the Company will not be able to grant him or her awards under the Plan or administer or maintain awards. Therefore, the Participant understands that refusing or withdrawing his or her consent may affect his or her ability to participate in the Plan (including the right to retain this Option). The Participant understands that he or she may contact his or her local human resources representative for more information on the consequences of his or her refusal to consent or withdrawal of consent.*

13. Miscellaneous

(a) **Address for Notices** . Any notice to be given to the Company under the terms of this Agreement must be addressed to the Company at Square, Inc., 1455 Market Street, Suite 600, San Francisco, CA 94103 until the Company designates another address in writing.

(b) **Non-Transferability of Option** . This Option may not be transferred other than by will or the laws of descent or distribution and may be exercised during the lifetime of the Participant only by him or her or his or her representative following a Disability.

(c) **Binding Agreement** . If this Option is transferred, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors, and assigns of the parties to this Agreement.

(d) **Additional Conditions to Issuance of Stock** . If the Company determines that the listing, registration, qualification, or rule compliance of the Common Stock on any securities exchange or under any state, federal, or foreign law or the tax code and related regulations or the consent or approval of any governmental regulatory authority is necessary or desirable as a condition to the issuance of Shares to the Participant (or his or her estate), the Company will try to meet the requirements of any such state, federal, or foreign law or securities exchange and to obtain any such consent or approval of any such governmental authority or securities exchange, but the Shares will not be issued until such conditions have been met in a manner acceptable to the Company.

(e) **Captions** . Captions provided in this Agreement are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

(f) **Agreement Severable** . If any provision of this Agreement is held invalid or unenforceable, that provision will be severed from the remaining provisions of this Agreement and the invalidity or unenforceability will have no effect on the remainder of the Agreement.

(g) **Non-U.S. Appendix** . This Option is subject to any special terms and conditions set forth in any Appendix. If the Participant relocates to a country included in the Appendix, the special terms and conditions for that country will apply to him or her to the extent the Company determines that applying such terms and conditions is necessary or advisable for legal or administrative reasons.

(h) **Choice of Law; Choice of Forum** . The Plan, this Agreement, this Option, and all determinations made and actions taken under the Plan, to the extent not otherwise governed by the laws of the United States, will be governed by the laws of the State of Delaware without giving effect to principles of conflicts of law. For purposes of litigating any dispute that arises under the Plan, the Participant's acceptance of this Option is his or her consent to the jurisdiction of the State of Delaware and his or her agreement that any such litigation will be conducted in the Delaware Court of Chancery or the federal courts for the United States for the District of Delaware and no other courts, regardless of where he or she is performing services.

(i) **Modifications to the Agreement** . The Plan and this Agreement constitute the entire understanding of the parties on the subjects covered. The Participant expressly warrants that he or she is not accepting this Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. The Company reserves the right to revise the Agreement as it deems necessary or advisable, in its sole discretion and without the consent of the Participant, to comply with Code Section 409A, to otherwise avoid imposition of any additional tax or income recognition under Code Section 409A in connection with this Option, or to comply with other Applicable Laws.

(j) **Waiver** . The Participant acknowledges that a waiver by the Company of a breach of any provision of this Agreement will not operate or be construed as a waiver of any other provision of this Agreement or of any subsequent breach of this Agreement by him or her.

## EXHIBIT B

### APPENDIX TO STOCK OPTION AGREEMENT

#### *Terms and Conditions*

This Appendix to Stock Option Agreement (the “ **Appendix** ”) includes additional terms and conditions that govern this Option granted to the Participant under the Plan if he or she resides in one of the countries listed below on the Grant Date or he or she moves to one of the listed countries.

#### *Notifications*

This Appendix may also include information regarding exchange controls and certain other issues of which the Participant should be aware with respect to participation in the Plan. The information is based on the securities, exchange control, and other Applicable Laws in effect in the respective countries as of \_\_\_\_\_, 20\_\_\_. Such Applicable Laws are often complex and change frequently. As a result, the Company strongly recommends that the Participant not rely on the information in this Appendix as the only source of information relating to the consequences of participation in the Plan because the information may be out of date at the time the Participant sells Shares acquired under the Plan.

In addition, the information contained in this Appendix is general in nature and may not apply to the Participant’s particular situation, and the Company is not in a position to assure him or her of a particular result. The Participant is advised to seek appropriate professional advice as to how the Applicable Laws in his or her country may apply to his or her situation.

Finally, if the Participant is a citizen or resident of a country other than the one in which he or she is currently working, transfers employment after this Option is granted, or is considered a resident of another country for local law purposes, the information in this Appendix may not apply to him or her, and the Administrator will determine to what extent the terms and conditions in this Appendix apply.

**EXHIBIT C**  
**SQUARE, INC.**  
**2015 EQUITY INCENTIVE PLAN**

**EXERCISE NOTICE**

Square, Inc.  
1455 Market Street, Suite 600  
San Francisco, CA 94103

Attention: Stock Administration

Purchaser Name:	
Grant Date of Stock Option (the “ <b>Option</b> ”):	
Exercise Date:	
Number of Shares Exercised:	
Per Share Exercise Price:	
Total Exercise Price:	
Exercise Price Payment Method:	
Tax-Related Items Payment Method:	

The information in the table above is incorporated in this Exercise Notice.

1. **Exercise of Option** . Effective as the Exercise Date, I elect to purchase the Number of Shares Exercised (“ **Exercised Shares** ”) under the Stock Option Agreement for the Option (the “ **Agreement** ”) for the Total Exercise Price. Capitalized terms used but not defined in this Exercise Notice have the meanings given to them in the 2015 Equity Incentive Plan (the “ **Plan** ”) and/or the Agreement.

2. **Delivery of Payment** . With this Exercise Notice, I am delivering the Total Exercise Price and any required Tax-Related Items to be paid in connection with purchase of the Exercised Shares. I am paying my total purchase price by the Exercise Price Payment Method and the Tax-Related Items by the Tax-Related Items Payment Method.

3. **Representations of Purchaser** . I acknowledge that:

(a) I have received, read, and understood the Plan and the Agreement and agree to be bound by their terms and conditions.

(b) The exercise will not be completed until this Exercise Notice, Total Exercise Price, and all Tax-Related Payments are received by the Company.

(c) I have no rights as a stockholder of the Company (including the right to vote and receive dividends and distributions) on the Exercised Shares until the Exercised Shares have been issued and recorded on the records of the Company or its transfer agents or registrars.

(d) No adjustment will be made for a dividend or other right for which the record date is before the date of issuance, except for adjustments under Section 13 of the Plan.

(e) There may be adverse tax consequences to exercising the Option, and I am not relying on the Company for tax advice and have had an opportunity to obtain the advice of personal tax, legal, and financial advisors prior to exercising.

(f) The modification and choice of law provisions of the Agreement also govern this Exercise Notice.

4. **Entire Agreement; Governing Law** . The Plan and the Agreement are incorporated by reference. This Exercise Notice, the Plan, and the Agreement are the entire agreement of the parties with respect to the Options and this exercise and supersede in their entirety all prior undertakings and agreements of the Company and Purchaser with respect to their subject matter.

Submitted by:

PURCHASER

\_\_\_\_\_  
Signature

Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**SQUARE, INC.**  
**2015 EQUITY INCENTIVE PLAN**

**NOTICE OF RESTRICTED STOCK AWARD AND RESTRICTED STOCK AGREEMENT**

Capitalized terms that are not defined in this Notice of Restricted Stock Award and Restricted Stock Agreement (the “ **Notice of Grant** ”), the Terms and Conditions of Restricted Stock Award, or any of the exhibits to these documents (all together, the “ **Agreement** ”) have the meanings given to them in the Square, Inc. 2015 Equity Incentive Plan (the “ **Plan** ”).

The Participant has been granted this Restricted Stock award according to the terms below and subject to the terms and conditions of the Plan and this Agreement, as follows:

Participant \_\_\_\_\_

Grant Number \_\_\_\_\_

Grant Date \_\_\_\_\_

Vesting Start Date \_\_\_\_\_

Number of Shares Granted \_\_\_\_\_

Vesting Schedule:

Unless the vesting is accelerated, these Shares of Restricted Stock will vest on the following schedule:

If the Participant continues to be a Service Provider through each such date, 25% of these Shares of Restricted Stock will vest on the 1-year anniversary of the Vesting Start Date, and 1/16th of these Shares of Restricted Stock will vest each quarter thereafter on the same day of the month as the Vesting Start Date (or if there is no corresponding day in a given month, then on the last day of that month). All vesting will be rounded in accordance with Section 3(f) of the Plan.

If the Participant ceases to be a Service Provider for any or no reason before he or she fully vests in these Shares of Restricted Stock, the unvested Shares of Restricted Stock will terminate according to the terms of Section 5 of this Agreement.

The Participant’s signature below indicates that:

- (i) He or she agrees that this Restricted Stock award is granted under and governed by the terms and conditions of the Plan and this Agreement, including their exhibits and appendices.
- (ii) He or she understands that the Company is not providing any tax, legal, or financial advice and is not making any recommendations regarding his or her participation in the Plan or his or her acquisition or sale of Shares.
- (iii) He or she has reviewed the Plan and this Agreement, has had an opportunity to obtain the advice of personal tax,

legal, and financial advisors prior to signing this Agreement, and fully understands all provisions of the Plan and Agreement. He or she will consult with his or her own personal tax, legal, and financial advisors before taking any action related to the Plan.

- (iv) He or she has read and agrees to each provision of Section 10 of this Agreement.
- (v) He or she will notify the Company of any change to the contact address below.

PARTICIPANT

\_\_\_\_\_  
Signature

Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

## EXHIBIT A

### TERMS AND CONDITIONS OF RESTRICTED STOCK AWARD

1. Grant. The Company grants the Participant an award of Restricted Stock as described in the Notice of Grant. If there is a conflict between the Plan, this Agreement, or any other agreement with the Participant governing these Shares of Restricted Stock, those documents will take precedence and prevail in the following order: (a) the Plan, (b) the Agreement, and (c) any other agreement between the Company and the Participant governing these Shares of Restricted Stock.

2. Escrow of Shares.

(a) Once the Participant signs this Agreement, all of these Shares of Restricted Stock will be delivered to an escrow holder designated by the Company (the "Escrow Holder") and will be held by the Escrow Holder until these Shares of Restricted Stock vest or the Participant ceases to be a Service Provider.

(b) The Escrow Holder is not liable for any act it does or does not do for purposes of holding these Shares of Restricted Stock in escrow.

(c) The Escrow Holder will transfer any vested Shares of Restricted Stock to the Participant at his or her request.

(d) The Participant has no right to receive cash dividends on any of these Shares of Restricted Stock that are held in escrow but has all other rights of a stockholder for such Shares, including the right to vote.

(e) These Shares of Restricted Stock will be subject to any adjustments made according to Section 13(a) of the Plan.

(f) The Company may instruct the transfer agent for the Common Stock to record the restrictions on transfer in this Agreement by placing a legend on the certificates representing the Restricted Stock or otherwise noting its records.

3. Vesting. These Shares of Restricted Stock will vest only under the Vesting Schedule in the Notice of Grant, Section 4 of this Agreement, or Section 14 of the Plan. Shares of Restricted Stock scheduled to vest on a certain date or upon the occurrence of a certain condition will not vest unless the Participant continues to be a Service Provider until the time such vesting is scheduled to occur. The Administrator may modify the Vesting Schedule according to its authority under the Plan if the Participant takes a leave of absence or has a reduction in hours worked.

4. Administrator Discretion. The Administrator has the discretion to accelerate the vesting of any number of unvested Shares of Restricted Stock at any time, subject to the terms of the Plan. In that case, those Shares of Restricted Stock will be vested as of the date specified by the Administrator.

5. Forfeiture upon Termination of Status as a Service Provider. Upon the Participant's termination as a Service Provider for any reason, these Shares of Restricted Stock will immediately stop vesting, and on the 30<sup>th</sup> day following the Termination of Status Date (or any earlier date on or following the Termination of Status Date determined by the Administrator), any of these Shares of Restricted Stock that have not yet vested will be forfeited by the Participant and automatically transferred by the Escrow Holder to the Company at no cost to the Company, subject to Applicable Laws. The Participant will not be refunded any price paid for such Shares and will have no further rights under this Agreement. The Participant appoints the Escrow Holder

with full power of substitution (as the Participant's true and lawful attorney-in-fact with irrevocable power and authority in the name and on behalf of the Participant) to take any action and execute all documents and instruments, including stock powers necessary to transfer the certificate(s) evidencing such unvested Shares of Restricted Stock to the Company upon such termination. The date of the Participant's termination as a Service Provider is detailed in Section 3(c) of the Plan.

6. Death of Participant. Any distribution or delivery to be made to the Participant under this Agreement will, if he or she is then deceased, be made to the administrator or executor of his or her estate or, if the Administrator permits, his or her designated beneficiary. Any such transferee must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations that apply to the transfer.

7. Tax Withholding.

(a) No Shares of Restricted Stock may be released from escrow until the Participant makes satisfactory arrangements (as determined by the Administrator) for the payment of income, employment, social insurance, National Insurance Contributions, payroll tax, fringe benefit tax, payment on account, or other tax-related items related to his or her participation in the Plan and legally applicable to him or her that the Administrator determines must be withheld ("Tax-Related Items"), including those that result from the grant, vesting, or subsequent sale of Shares of Restricted Stock or the receipt of any dividends. If the Participant is a non-U.S. employee, the method of payment of Tax-Related Items may be restricted by any Appendix. If the Participant fails to make satisfactory arrangements for the payment of any Tax-Related Items under this Agreement when any of these Shares of Restricted Stock otherwise are supposed to vest or Tax-Related Items related to these Shares of Restricted Stock otherwise are due, he or she will permanently forfeit the applicable Shares of Restricted Stock and such Shares of Restricted Stock will be returned to the Company at no cost to the Company.

(b) The Company has the right (but not the obligation) to satisfy any Tax-Related Items by withholding from proceeds of a sale of any of these Shares of Restricted Stock that have vested arranged by the Company (on the Participant's behalf pursuant to this authorization without further consent), and this will be the method by which such tax withholding obligations are satisfied until the Company determines otherwise, subject to Applicable Laws.

(c) The Company also has the right (but not the obligation) to satisfy any Tax-Related Items by reducing the number of Shares otherwise deliverable to the Participant.

(d) Further, if the Participant is subject to taxation in more than one jurisdiction between the Grant Date and the date of any relevant taxable or tax withholding event, the Company and/or any member of the Company Group for whom he or she is performing services (each, an "Employer") or former Employer(s) may withhold or account for tax in more than one jurisdiction.

(e) Regardless of any action of the Company or the Employer(s), the Participant acknowledges that the ultimate liability for all Tax-Related Items is and remains his or her responsibility and may exceed the amount actually withheld by the Company or the Employer(s). The Participant further acknowledges that the Company and the Employer(s) (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of these Shares of Restricted Stock and (ii) do not commit to and are under no obligation to structure the terms of the grant or any aspect of these Shares of Restricted Stock to reduce or eliminate his or her liability for Tax-Related Items or achieve any particular tax result.

8. Forfeiture or Clawback. These Shares of Restricted Stock (including any proceeds, gains or other economic benefit received by the Participant from their subsequent sale) will be subject to any compensation recovery or clawback policy implemented by the Company before or after the date of this Agreement. This includes any clawback policy adopted to comply with the requirements of Applicable Laws.

9. Rights as Stockholder. The Participant's rights as a stockholder of the Company (including the right to vote and to receive dividends and distributions) will not begin until these Shares of Restricted Stock have been issued and recorded on the records of the Company or its transfer agents or registrars.

10. Acknowledgements and Agreements. The Participant's signature on the Notice of Grant accepting these Shares of Restricted Stock indicates that:

(a) HE OR SHE ACKNOWLEDGES AND AGREES THAT THE VESTING OF THE SHARES OF RESTRICTED STOCK IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AND THAT BEING HIRED OR BEING GRANTED THESE SHARES OF RESTRICTED STOCK DO NOT RESULT IN VESTING.

(b) HE OR SHE FURTHER ACKNOWLEDGES AND AGREES THAT THESE SHARES OF RESTRICTED STOCK AND THIS AGREEMENT DO NOT CREATE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL AND DOES NOT INTERFERE IN ANY WAY WITH HIS OR HER RIGHT OR THE RIGHT OF THE EMPLOYER(S) TO TERMINATE HIS OR HER RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE, SUBJECT TO APPLICABLE LAWS.

(c) The Participant agrees that this Agreement and its incorporated documents reflect all agreements on its subject matters and that he or she is not accepting this Agreement based on any promises, representations, or inducements other than those reflected in the Agreement.

(d) The Participant agrees that the Company's delivery of any documents related to the Plan or these Shares of Restricted Stock (including the Plan, the Agreement, the Plan's prospectus, and any reports of the Company provided generally to the Company's stockholders) to him or her may be made by electronic delivery, which may include the delivery of a link to a Company intranet or to the Internet site of a third party involved in administering the Plan, the delivery of the document via e-mail, or any other means of electronic delivery specified by the Company. If the attempted electronic delivery of such documents fails, the Participant will be provided with a paper copy of the documents. The Participant acknowledges that he or she may receive from the Company a paper copy of any documents that were delivered electronically at no cost to him or her by contacting the Company by telephone or in writing. The Participant may revoke his or her consent to the electronic delivery of documents or may change the electronic mail address to which such documents are to be delivered (if the Participant has provided an electronic mail address) at any time by notifying the Company of such revoked consent or revised e-mail address by telephone, postal service or electronic mail. Finally, the Participant understands that he or she is not required to consent to electronic delivery of documents.

(e) The Participant may deliver any documents related to the Plan or these Shares of Restricted Stock to the Company by e-mail or any other means of electronic delivery approved by the Administrator, but he or she must provide the Company or any designated third party administrator with a paper copy of any documents if his or her attempted electronic delivery of such documents fails.

(f) The Participant accepts that all good faith decisions or interpretations of the Administrator regarding the Plan and Awards under the Plan are binding, conclusive, and final. No member of the Administrator will be personally liable for any such decisions or interpretations.

- (g) The Participant agrees that the Plan is established voluntarily by the Company, is discretionary in nature, and may be amended, suspended, or terminated by the Company at any time, to the extent permitted by the Plan.
- (h) The Participant agrees that the grant of these Shares of Restricted Stock is voluntary and occasional and does not create any contractual or other right to receive future grants of restricted stock or benefits in lieu of restricted stock, even if restricted stock has been granted in the past.
- (i) The Participant agrees that any decisions regarding future Awards will be in the Company's sole discretion.
- (j) The Participant agrees that he or she is voluntarily participating in the Plan.
- (k) The Participant agrees that these Shares of Restricted Stock are not intended to replace any pension rights or compensation.
- (l) The Participant agrees that these Shares of Restricted Stock and their income and value are not part of normal or expected compensation for any purpose, including for calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, holiday pay, long-service awards, pension or retirement or welfare benefits, or similar payments.
- (m) The Participant agrees that the future value of these Shares of Restricted Stock is unknown, indeterminable, and cannot be predicted with certainty.
- (n) The Participant agrees that, for purposes of these Shares of Restricted Stock, his or her engagement as a Service Provider is terminated as of the Termination of Status Date (regardless of the reason for such termination and whether or not the termination is later found to be invalid or in breach of employment laws in the jurisdiction where he or she is a Service Provider or the terms of his or her service agreement, if any), unless otherwise expressly provided in this Agreement or determined by the Administrator.
- (o) The Participant agrees that any right to vest in these Shares of Restricted Stock terminates as of the Termination of Status Date and will not be extended by any notice period (e.g., the period that he or she is a Service Provider would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws (including common law, if applicable) in the jurisdiction where he or she is a Service Provider or by his or her service agreement or employment agreement, if any, unless he or she is providing bona fide services during such time).
- (p) The Participant agrees that the Administrator has the exclusive discretion to determine when he or she is no longer actively providing services for purposes of these Shares of Restricted Stock (including whether he or she is still considered to be providing services while on a leave of absence).
- (q) The Participant agrees that no member of the Company Group is liable for any foreign exchange rate fluctuation between the Participant's local currency and the United States Dollar that may affect the value of these Shares of Restricted Stock or of any amounts due to him or her upon the sale of any of these Shares of Restricted Stock.
- (r) The Participant has read and agrees to the Data Privacy Provisions of Section 11 of this Agreement.

(s) The Participant agrees that he or she has no claim or entitlement to compensation or damages from any forfeiture of these Shares of Restricted Stock resulting from the termination of his or her status as a Service Provider (for any reason whatsoever, whether or not later found to be invalid or in breach of employment laws in the jurisdiction where he or she is a Service Provider or the terms of his or her service agreement, if any), and in consideration of the grant of these Shares of Restricted Stock to which he or she is otherwise not entitled, he or she irrevocably agrees never to institute any claim against the Company or any member of the Company Group, waives his or her ability (if any) to bring any such claim, and releases the Company and all members of the Company Group from any such claim. If any such claim is nevertheless allowed by a court of competent jurisdiction, then the Participant's participation in the Plan constitutes his or her irrevocable agreement to not pursue such claim and to execute any and all documents necessary to request dismissal or withdrawal of such claim.

11. Data Privacy.

(a) *The Participant voluntarily consents to the collection, use and transfer, in electronic or other form, of his or her personal data as described in this Agreement and any other Award materials (" Data ") by and among, as applicable, the Employer(s), the Company and any member of the Company Group for the exclusive purpose of implementing, administering, and managing his or her participation in the Plan.*

(b) *The Participant understands that the Company and the Employer(s) may hold certain personal information about him or her, including, but not limited to, his or her name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of all equity awards or any other entitlement to stock awarded, canceled, exercised, vested, unvested or outstanding in his or her favor, for the exclusive purpose of implementing, administering, and managing the Plan.*

(c) *The Participant understands that Data will be transferred to one or more a stock plan service provider(s) selected by the Company, which may assist the Company with the implementation, administration, and management of the Plan. The Participant understands that the recipients of the Data may be located in the United States or elsewhere, and that the recipient's country (e.g., the United States) may have different data privacy laws and protections than his or her country. The Participant understands that if he or she resides outside the United States, he or she may request a list with the names and addresses of any potential recipients of the Data by contacting his or her local human resources representative. The Participant authorizes the Company and any other possible recipients that may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purposes of implementing, administering and managing his or her participation in the Plan.*

(d) *The Participant understands that Data will be held only as long as is necessary to implement, administer and manage his or her participation in the Plan. The Participant understands that if he or she resides in certain jurisdictions outside the United States, to the extent required by Applicable Laws, he or she may, at any time, request access to Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents given by accepting these Shares of Restricted Stock, in any case without cost, by contacting in writing his or her local human resources representative. Further, the Participant understands that he or she is providing these consents on a purely voluntary basis. If the Participant does not consent or if he or she later seeks to revoke his or her consent, his or her engagement as a Service Provider with the Employer(s) will not be adversely affected; the only consequence of refusing or withdrawing his or her consent is that the Company will not be able to grant him or her awards under the Plan or administer or maintain awards. Therefore, the Participant understands that refusing or withdrawing his or her consent may affect his or her ability to participate in the Plan (including the right to retain these Shares of Restricted Stock). The Participant understands that he or she may contact his or her local human resources representative for more information on the consequences of his or her refusal to consent or withdrawal of consent.*

12. Miscellaneous.

- (a) **Address for Notices** . Any notice to be given to the Company under the terms of this Agreement must be addressed to the Company at Square, Inc., 1455 Market Street, Suite 600, San Francisco, CA 94103 until the Company designates another address in writing.
- (b) **Non-Transferability of Restricted Stock**. These Shares of Restricted Stock may not be transferred other than by will or the laws of descent or distribution.
- (c) **Binding Agreement** . If any Shares of Restricted Stock are transferred, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors, and assigns of the parties to this Agreement.
- (d) **Additional Conditions to Issuance of Stock and Release from Escrow** . If the Company determines that the listing, registration, qualification, or rule compliance of the Common Stock on any securities exchange or under any state, federal, or foreign law or the tax code and related regulations or the consent or approval of any governmental regulatory authority is necessary or desirable as a condition to the issuance of these Shares of Restricted Stock or their release from escrow to the Participant (or his or her estate), the Company will try to meet the requirements of any such state, federal, or foreign law or securities exchange and to obtain any such consent or approval of any such governmental authority or securities exchange, but these Shares of Restricted Stock will not be issued until such conditions have been met in a manner acceptable to the Company.
- (e) **Captions** . Captions provided in this Agreement are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.
- (f) **Agreement Severable** . If any provision of this Agreement is held invalid or unenforceable, that provision will be severed from the remaining provisions of this Agreement and the invalidity or unenforceability will have no effect on the remainder of the Agreement.
- (g) **Non-U.S. Appendix** . These Shares of Restricted Stock are subject to any special terms and conditions set forth in any appendix to this Agreement for the Participant's country (the "**Appendix** "). If the Participant relocates to a country included in the Appendix, the special terms and conditions for that country will apply to him or her to the extent the Company determines that applying such terms and conditions is necessary or advisable for legal or administrative reasons.
- (h) **Choice of Law; Choice of Forum**. The Plan, this Agreement, these Shares of Restricted Stock, and all determinations made and actions taken under the Plan, to the extent not otherwise governed by the laws of the United States, will be governed by the laws of the State of Delaware without giving effect to principles of conflicts of law. For purposes of litigating any dispute that arises under the Plan, the Participant's acceptance of these Shares of Restricted Stock is his or her consent to the jurisdiction of the State of Delaware and his or her agreement that any such litigation will be conducted in the Delaware Court of Chancery or the federal courts for the United States for the District of Delaware and no other courts, regardless of where he or she is performing services.

(i) **Modifications to the Agreement** . The Plan and this Agreement constitute the entire understanding of the parties on the subjects covered. The Participant expressly warrants that he or she is not accepting this Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. The Company reserves the right to revise the Agreement as it deems necessary or advisable, in its sole discretion and without the consent of the Participant, to comply with other Applicable Laws.

(j) **Waiver** . The Participant acknowledges that a waiver by the Company of a breach of any provision of this Agreement will not operate or be construed as a waiver of any other provision of this Agreement or of any subsequent breach of this Agreement by him or her.

**EXHIBIT B**

**APPENDIX TO RESTRICTED STOCK AGREEMENT**

***Terms and Conditions***

This Appendix to Restricted Stock Agreement (the “ **Appendix** ”) includes additional terms and conditions that govern these Shares of Restricted Stock granted to the Participant under the Plan if he or she resides in one of the countries listed below on the Grant Date or he or she moves to one of the listed countries.

***Notifications***

This Appendix may also include information regarding exchange controls and certain other issues of which the Participant should be aware with respect to participation in the Plan. The information is based on the securities, exchange control, and other Applicable Laws in effect in the respective countries as of \_\_\_\_\_, 20\_\_\_. Such Applicable Laws are often complex and change frequently. As a result, the Company strongly recommends that the Participant not rely on the information in this Appendix as the only source of information relating to the consequences of participation in the Plan because the information may be out of date at the time the Participant sells Shares acquired under the Plan.

In addition, the information contained in this Appendix is general in nature and may not apply to the Participant’s particular situation, and the Company is not in a position to assure him or her of a particular result. The Participant is advised to seek appropriate professional advice as to how the Applicable Laws in his or her country may apply to his or her situation.

Finally, if the Participant is a citizen or resident of a country other than the one in which he or she is currently working, transfers employment after these Shares of Restricted Stock are granted, or is considered a resident of another country for local law purposes, the information in this Appendix may not apply to him or her, and the Administrator will determine to what extent the terms and conditions in this Appendix apply.

**SQUARE, INC.**  
**2015 EQUITY INCENTIVE PLAN**

**NOTICE OF RESTRICTED STOCK UNIT AWARD AND RESTRICTED STOCK UNIT AGREEMENT**

Capitalized terms that are not defined in this Notice of Restricted Stock Unit Award and Restricted Stock Unit Agreement (the “**Notice of Grant**”), the Terms and Conditions of Restricted Stock Unit Award, or any of the exhibits to these documents (all together, the “**Agreement**”) have the meanings given to them in the Square, Inc. 2015 Equity Incentive Plan (the “**Plan**”).

The Participant has been granted this Restricted Stock Unit (“**RSU**”) award according to the terms below and subject to the terms and conditions of the Plan and this Agreement, as follows:

Participant \_\_\_\_\_

Grant Number \_\_\_\_\_

Grant Date \_\_\_\_\_

Vesting Start Date \_\_\_\_\_

Number of RSUs Granted \_\_\_\_\_

Vesting Schedule:

Unless the vesting is accelerated, these RSUs will vest on the following schedule:

If the Participant continues to be a Service Provider through each such date, 25% of these RSUs will vest on the 1-year anniversary of the Vesting Start Date, and 1/16<sup>th</sup> of these RSUs will vest each quarter thereafter on the same day of the month as the Vesting Start Date (or if there is no corresponding day in a given month, then on the last day of that month). All vesting will be rounded in accordance with Section 3(f) of the Plan.

If the Participant ceases to be a Service Provider for any or no reason before he or she fully vests in these RSUs, the unvested RSUs will terminate according to the terms of Section 5 of this Agreement.

The Participant’s signature below indicates that:

- (i) He or she agrees that this Restricted Stock Unit award is granted under and governed by the terms and conditions of the Plan and this Agreement, including their exhibits and appendices.
- (ii) He or she understands that the Company is not providing any tax, legal, or financial advice and is not making any recommendations regarding his or her participation in the Plan or his or her acquisition or sale of Shares.
- (iii) He or she has reviewed the Plan and this Agreement, has had an opportunity to obtain the advice of personal tax, legal, and financial advisors prior to signing this Agreement, and fully understands all provisions of the Plan and Agreement. He or she will consult with his or her own personal tax, legal, and financial advisors before taking any action related to the Plan.

- (iv) He or she has read and agrees to each provision of Section 10 of this Agreement.
- (v) He or she will notify the Company of any change to the contact address below.

PARTICIPANT

\_\_\_\_\_  
Signature

Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

## EXHIBIT A

### TERMS AND CONDITIONS OF RESTRICTED STOCK UNIT AWARD

1. Grant. The Company grants the Participant an award of RSUs as described in the Notice of Grant. If there is a conflict between the Plan, this Agreement, or any other agreement with the Participant governing these RSUs, those documents will take precedence and prevail in the following order: (a) the Plan, (b) the Agreement, and (c) any other agreement between the Company and the Participant governing these RSUs.

2. Company's Obligation to Pay. Each RSU is a right to receive a Share on the date it vests. Until an RSU vests, the Participant has no right to payment of the Share. Before a vested RSU is paid, the RSU is an unsecured obligation of the Company, payable (if at all) only from the Company's general assets. A vested RSU will be paid to the Participant (or in the event of his or her death, to his or her estate) in whole Shares as soon as practicable after vesting (but no later than 60 days following the vesting date), subject to him or her satisfying any obligations for Tax-Related Items (as defined in Section 7 of this Agreement) and any delay in payment required under Section 7 of this Agreement. The Participant cannot specify (directly or indirectly) the taxable year of the payment of any vested RSU under this Agreement.

3. Vesting. These RSUs will vest only under the Vesting Schedule in the Notice of Grant, Section 4 of this Agreement, or Section 14 of the Plan. RSUs scheduled to vest on a certain date or upon the occurrence of a certain condition will not vest unless the Participant continues to be a Service Provider until the time such vesting is scheduled to occur. The Administrator may modify the Vesting Schedule according to its authority under the Plan if the Participant takes a leave of absence or has a reduction in hours worked.

4. Administrator Discretion. The Administrator has the discretion to accelerate the vesting of any RSUs at any time, subject to the terms of the Plan. In that case, those RSUs will be vested as of the date specified by the Administrator.

5. Forfeiture upon Termination of Status as a Service Provider. Upon the Participant's termination as a Service Provider for any reason, these RSUs will immediately stop vesting, and on the 30<sup>th</sup> day following the Termination of Status Date (or any earlier date on or following the Termination of Status Date determined by the Administrator), any of these RSUs that have not yet vested will be forfeited by the Participant, subject to Applicable Laws. The date of the Participant's termination as a Service Provider is detailed in Section 3(c) of the Plan.

6. Death of Participant. Any distribution or delivery to be made to the Participant under this Agreement will, if he or she is then deceased, be made to the administrator or executor of his or her estate or, if the Administrator permits, his or her designated beneficiary. Any such transferee must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations that apply to the transfer.

7. Tax Obligations.

(a) **Tax Withholding.**

(i) No Shares will be issued to the Participant until he or she makes satisfactory arrangements (as determined by the Administrator) for the payment of income, employment, social insurance, National Insurance Contributions, payroll tax, fringe benefit tax, payment on account, or other tax-related items related to his or her participation in the Plan and

legally applicable to him or her that the Administrator determines must be withheld (“ **Tax-Related Items** ”), including those that result from the grant, vesting, or payment of these RSUs, the subsequent sale of Shares acquired pursuant to such payment, or the receipt of any dividends. If the Participant is a non-U.S. employee, the method of payment of Tax-Related Items may be restricted by any Appendix. If the Participant fails to make satisfactory arrangements for the payment of any Tax-Related Items under this Agreement when any of these RSUs otherwise are supposed to vest or Tax-Related Items related to RSUs otherwise are due, he or she will permanently forfeit the applicable RSUs and any right to receive Shares under such RSUs, and such RSUs will be returned to the Company at no cost to the Company.

(ii) The Company has the right (but not the obligation) to satisfy any Tax-Related Items by withholding from proceeds of a sale of Shares acquired upon payment of these RSUs arranged by the Company (on the Participant’s behalf pursuant to this authorization without further consent), and this will be the method by which such tax withholding obligations are satisfied until the Company determines otherwise, subject to Applicable Laws.

(iii) The Company also has the right (but not the obligation) to satisfy any Tax-Related Items by reducing the number of Shares otherwise deliverable to the Participant.

(iv) Further, if the Participant is subject to taxation in more than one jurisdiction between the Grant Date and the date of any relevant taxable or tax withholding event, the Company and/or any member of the Company Group for whom he or she is performing services (each, an “ **Employer** ”) or former Employer(s) may withhold or account for tax in more than one jurisdiction.

(v) Regardless of any action of the Company or the Employer(s), the Participant acknowledges that the ultimate liability for all Tax-Related Items is and remains his or her responsibility and may exceed the amount actually withheld by the Company or the Employer(s). The Participant further acknowledges that the Company and the Employer(s) (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of these RSUs and (2) do not commit to and are under no obligation to structure the terms of the grant or any aspect of these RSUs to reduce or eliminate his or her liability for Tax-Related Items or achieve any particular tax result.

(b) **Code Section 409A** . This Section 7(b) does not apply if the Participant is not a U.S. taxpayer.

(i) If the vesting of any RSUs is accelerated in connection with a termination of the Participant’s status as a Service Provider that is a “separation from service” within the meaning of Code Section 409A and (x) the Participant is a “specified employee” within the meaning of Code Section 409A at that time and (y) the payment of such accelerated RSUs would result in the imposition of additional tax under Code Section 409A if paid to the Participant within the 6-month period following such termination, then the accelerated RSUs will not be paid until the first day after the 6-month period ends.

(ii) If the Participant’s status as a Service Provider terminates due to death or the Participant dies after he or she stops being a Service Provider, the delay under Section 7(b)(i) of this Agreement will not apply, and these RSUs will be paid in Shares to the Participant’s estate as soon as practicable.

(iii) All payments and benefits under this Agreement are intended to be exempt from Code Section 409A or comply with any requirements necessary to avoid the imposition of additional tax under Code Section 409A(a)(1)(B) so that none of these RSUs or Shares issuable upon the vesting of RSUs will be subject to the additional tax imposed under Code Section 409A, and any ambiguities will be interpreted according to that intent.

(iv) Each payment under this Agreement is a separate payment under Treasury Regulations Section 1.409A-2(b)(2).

8. Forfeiture or Clawback. These RSUs (including any proceeds, gains or other economic benefit received by the Participant from any subsequent sale of Shares issued upon payment of the RSUs) will be subject to any compensation recovery or clawback policy implemented by the Company before or after the date of this Agreement. This includes any clawback policy adopted to comply with the requirements of Applicable Laws.

9. Rights as Stockholder. The Participant's rights as a stockholder of the Company (including the right to vote and to receive dividends and distributions) will not begin until Shares have been issued and recorded on the records of the Company or its transfer agents or registrars.

10. Acknowledgements and Agreements. The Participant's signature on the Notice of Grant accepting these RSUs indicates that:

(a) HE OR SHE ACKNOWLEDGES AND AGREES THAT THE VESTING OF THESE RSUS IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AND THAT BEING HIRED OR BEING GRANTED THESE RSUS WILL NOT RESULT IN VESTING.

(b) HE OR SHE FURTHER ACKNOWLEDGES AND AGREES THAT THESE RSUS AND THIS AGREEMENT DO NOT CREATE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL AND DOES NOT INTERFERE IN ANY WAY WITH HIS OR HER RIGHT OR THE RIGHT OF THE EMPLOYER(S) TO TERMINATE HIS OR HER RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE, SUBJECT TO APPLICABLE LAWS.

(c) The Participant agrees that this Agreement and its incorporated documents reflect all agreements on its subject matters and that he or she is not accepting this Agreement based on any promises, representations, or inducements other than those reflected in the Agreement.

(d) The Participant agrees that the Company's delivery of any documents related to the Plan or these RSUs (including the Plan, the Agreement, the Plan's prospectus, and any reports of the Company provided generally to the Company's stockholders) to him or her may be made by electronic delivery, which may include the delivery of a link to a Company intranet or to the Internet site of a third party involved in administering the Plan, the delivery of the document via e-mail, or any other means of electronic delivery specified by the Company. If the attempted electronic delivery of such documents fails, the Participant will be provided with a paper copy of the documents. The Participant acknowledges that he or she may receive from the Company a paper copy of any documents that were delivered electronically at no cost to him or her by contacting the Company by telephone or in writing. The Participant may revoke his or her consent to the electronic delivery of documents or may change the electronic mail address to which such documents are to be delivered (if the Participant has provided an electronic mail address) at any time by notifying the Company of such revoked consent or revised e-mail address by telephone, postal service or electronic mail. Finally, the Participant understands that he or she is not required to consent to electronic delivery of documents.

(e) The Participant may deliver any documents related to the Plan or these RSUs to the Company by e-mail or any other means of electronic delivery approved by the Administrator, but he or she must provide the Company or any designated third party administrator with a paper copy of any documents if his or her attempted electronic delivery of such documents fails.

(f) The Participant accepts that all good faith decisions or interpretations of the Administrator regarding the Plan and Awards under the Plan are binding, conclusive, and final. No member of the Administrator will be personally liable for any such decisions or interpretations.

(g) The Participant agrees that the Plan is established voluntarily by the Company, is discretionary in nature, and may be amended, suspended, or terminated by the Company at any time, to the extent permitted by the Plan.

(h) The Participant agrees that the grant of these RSUs is voluntary and occasional and does not create any contractual or other right to receive future grants of restricted stock units or benefits in lieu of restricted stock units, even if restricted stock units have been granted in the past.

(i) The Participant agrees that any decisions regarding future Awards will be in the Company's sole discretion.

(j) The Participant agrees that he or she is voluntarily participating in the Plan.

(k) The Participant agrees that these RSUs and any Shares acquired under these RSUs are not intended to replace any pension rights or compensation.

(l) The Participant agrees that these RSUs, any Shares acquired under these RSUs, and their income and value are not part of normal or expected compensation for any purpose, including for calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, holiday pay, long-service awards, pension or retirement or welfare benefits, or similar payments.

(m) The Participant agrees that the future value of the Shares underlying these RSUs is unknown, indeterminable, and cannot be predicted with certainty.

(n) The Participant agrees that, for purposes of these RSUs, his or her engagement as a Service Provider is terminated as of the Termination of Status Date (regardless of the reason for such termination and whether or not the termination is later found to be invalid or in breach of employment laws in the jurisdiction where he or she is a Service Provider or the terms of his or her service agreement, if any), unless otherwise expressly provided in this Agreement or determined by the Administrator.

(o) The Participant agrees that any right to vest in these RSUs terminates as of the Termination of Status Date and will not be extended by any notice period (e.g., the period that he or she is a Service Provider would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws (including common law, if applicable) in the jurisdiction where he or she is a Service Provider or by his or her service agreement or employment agreement, if any, unless he or she is providing bona fide services during such time).

(p) The Participant agrees that the Administrator has the exclusive discretion to determine when he or she is no longer actively providing services for purposes of these RSUs (including whether he or she is still considered to be providing services while on a leave of absence).

(q) The Participant agrees that no member of the Company Group is liable for any foreign exchange rate fluctuation between the Participant's local currency and the United States Dollar that may affect the value of these RSUs or of any amounts due to him or her from the payment of these RSUs or the subsequent sale of any Shares acquired upon such payment.

(r) The Participant has read and agrees to the Data Privacy Provisions of Section 11 of this Agreement.

(s) The Participant agrees that he or she has no claim or entitlement to compensation or damages from any forfeiture of these RSUs resulting from the termination of his or her status as a Service Provider (for any reason whatsoever, whether or not later found to be invalid or in breach of employment laws in the jurisdiction where he or she is a Service Provider or the terms of his or her service agreement, if any), and in consideration of the grant of these RSUs to which he or she is otherwise not entitled, he or she irrevocably agrees never to institute any claim against the Company or any member of the Company Group, waives his or her ability (if any) to bring any such claim, and releases the Company and all members of the Company Group from any such claim. If any such claim is nevertheless allowed by a court of competent jurisdiction, then the Participant's participation in the Plan constitutes his or her irrevocable agreement to not pursue such claim and to execute any and all documents necessary to request dismissal or withdrawal of such claim.

#### 11. Data Privacy.

(a) *The Participant voluntarily consents to the collection, use and transfer, in electronic or other form, of his or her personal data as described in this Agreement and any other Award materials (" Data ") by and among, as applicable, the Employer(s), the Company and any member of the Company Group for the exclusive purpose of implementing, administering, and managing his or her participation in the Plan.*

(b) *The Participant understands that the Company and the Employer(s) may hold certain personal information about him or her, including, but not limited to, his or her name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of all equity awards or any other entitlement to stock awarded, canceled, exercised, vested, unvested or outstanding in his or her favor, for the exclusive purpose of implementing, administering, and managing the Plan.*

(c) *The Participant understands that Data will be transferred to one or more a stock plan service provider(s) selected by the Company, which may assist the Company with the implementation, administration, and management of the Plan. The Participant understands that the recipients of the Data may be located in the United States or elsewhere, and that the recipient's country (e.g., the United States) may have different data privacy laws and protections than his or her country. The Participant understands that if he or she resides outside the United States, he or she may request a list with the names and addresses of any potential recipients of the Data by contacting his or her local human resources representative. The Participant authorizes the Company and any other possible recipients that may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purposes of implementing, administering and managing his or her participation in the Plan.*

(d) *The Participant understands that Data will be held only as long as is necessary to implement, administer and manage his or her participation in the Plan. The Participant understands that if he or she resides in certain jurisdictions outside the United States, to the extent required by Applicable Laws, he or she may, at any time, request access to Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents given by accepting these RSUs, in any case without cost, by contacting in writing his or her local human resources representative. Further, the Participant understands that he or she is providing these consents on a purely voluntary basis. If the Participant does not consent or if he or she later seeks to revoke his or her consent, his or her engagement as a Service Provider with the Employer(s) will not be adversely affected; the only consequence of refusing or withdrawing his or her consent is that the Company will not be able to grant him or her awards under the Plan or administer or maintain awards. Therefore, the Participant understands that refusing or withdrawing his or her consent may affect his or her ability to participate in the Plan (including the right to retain these RSUs). The Participant understands that he or she may contact his or her local human resources representative for more information on the consequences of his or her refusal to consent or withdrawal of consent.*

12. Miscellaneous.

(a) **Address for Notices** . Any notice to be given to the Company under the terms of this Agreement must be addressed to the Company at Square, Inc., 1455 Market Street, Suite 600, San Francisco, CA 94103 until the Company designates another address in writing.

(b) **Non-Transferability of RSUs**. These RSUs may not be transferred other than by will or the laws of descent or distribution.

(c) **Binding Agreement** . If any RSUs are transferred, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors, and assigns of the parties to this Agreement.

(d) **Additional Conditions to Issuance of Stock** . If the Company determines that the listing, registration, qualification, or rule compliance of the Common Stock on any securities exchange or under any state, federal, or foreign law or the tax code and related regulations or the consent or approval of any governmental regulatory authority is necessary or desirable as a condition to the issuance of Shares to the Participant (or his or her estate), the Company will try to meet the requirements of any such state, federal, or foreign law or securities exchange and to obtain any such consent or approval of any such governmental authority or securities exchange, but the Shares will not be issued until such conditions have been met in a manner acceptable to the Company.

(e) **Captions** . Captions provided in this Agreement are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

(f) **Agreement Severable** . If any provision of this Agreement is held invalid or unenforceable, that provision will be severed from the remaining provisions of this Agreement and the invalidity or unenforceability will have no effect on the remainder of the Agreement.

(g) **Non-U.S. Appendix** . These RSUs are subject to any special terms and conditions set forth in any appendix to this Agreement for the Participant's country (the "**Appendix** "). If the Participant relocates to a country included in the Appendix, the special terms and conditions for that country will apply to him or her to the extent the Company determines that applying such terms and conditions is necessary or advisable for legal or administrative reasons.

(h) **Choice of Law; Choice of Forum**. The Plan, this Agreement, these RSUs, and all determinations made and actions taken under the Plan, to the extent not otherwise governed by the laws of the United States, will be governed by the laws of the State of Delaware without giving effect to principles of conflicts of law. For purposes of litigating any dispute that arises under the Plan, the Participant's acceptance of these RSUs is his or her consent to the jurisdiction of the State of Delaware and his or her agreement that any such litigation will be conducted in the Delaware Court of Chancery or the federal courts for the United States for the District of Delaware and no other courts, regardless of where he or she is performing services.

(i) **Modifications to the Agreement** . The Plan and this Agreement constitute the entire understanding of the parties on the subjects covered. The Participant expressly warrants that he or she is not accepting this Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. The Company reserves the right to revise the Agreement as it deems necessary or advisable, in its sole discretion and without the consent of the Participant, to comply with Code Section 409A, to otherwise avoid imposition of any additional tax or income recognition under Code Section 409A in connection with these RSUs, or to comply with other Applicable Laws.

(j) **Waiver** . The Participant acknowledges that a waiver by the Company of a breach of any provision of this Agreement will not operate or be construed as a waiver of any other provision of this Agreement or of any subsequent breach of this Agreement by him or her.

## **EXHIBIT B**

### **APPENDIX TO RESTRICTED STOCK UNIT AGREEMENT**

#### ***Terms and Conditions***

This Appendix to Restricted Stock Unit Agreement (the “**Appendix**”) includes additional terms and conditions that govern these RSUs granted to the Participant under the Plan if he or she resides in one of the countries listed below on the Grant Date or he or she moves to one of the listed countries.

#### ***Notifications***

This Appendix may also include information regarding exchange controls and certain other issues of which the Participant should be aware with respect to participation in the Plan. The information is based on the securities, exchange control, and other Applicable Laws in effect in the respective countries as of \_\_\_\_\_, 20\_\_\_. Such Applicable Laws are often complex and change frequently. As a result, the Company strongly recommends that the Participant not rely on the information in this Appendix as the only source of information relating to the consequences of participation in the Plan because the information may be out of date at the time the Participant sells Shares acquired under the Plan.

In addition, the information contained in this Appendix is general in nature and may not apply to the Participant’s particular situation, and the Company is not in a position to assure him or her of a particular result. The Participant is advised to seek appropriate professional advice as to how the Applicable Laws in his or her country may apply to his or her situation.

Finally, if the Participant is a citizen or resident of a country other than the one in which he or she is currently working, transfers employment after these RSUs are granted, or is considered a resident of another country for local law purposes, the information in this Appendix may not apply to him or her, and the Administrator will determine to what extent the terms and conditions in this Appendix apply.

**SQUARE, INC.**  
**OUTSIDE DIRECTOR COMPENSATION POLICY**

Square, Inc. (the “ **Company** ”) believes that the granting of cash compensation and equity to members of its Board of Directors (the “ **Board** ,” and members of the Board, the “ **Directors** ”) represents an effective tool to attract, retain, and reward Directors who are not employees of the Company (the “ **Outside Directors** ”). This Outside Director Compensation Policy (the “ **Policy** ”) is intended to formalize the Company’s policy regarding grants of cash compensation and equity to its Outside Directors. Unless defined in this Policy, capitalized terms are defined in the Company’s 2015 Equity Incentive Plan, as may be amended from time to time (the “ **Plan** ”). Each Outside Director is solely responsible for any tax obligations he or she incurs from the receipt of any compensation under this Policy. In addition, each Director is solely responsible for his or her travel, entertainment, or other expenses in the furtherance of or in connection with the performance of the Director’s duties or service as a Director.

This Policy is amended effective as of April 27, 2016 (the “ **Effective Date** ”).

**1. CASH RETAINERS**

*Annual Cash Retainer*

Each Outside Director will be paid an annual cash retainer of \$40,000.

*Committee Chair and Committee Member Annual Cash Retainers*

Each Outside Director who serves as chairperson or member of a committee of the Board will be paid additional annual cash retainers as follows:

Chairperson of Audit and Risk Committee:	\$20,000
Chairperson of Compensation Committee:	\$15,000
Chairperson of Nominating and Corporate Governance Committee:	\$10,000
Member of Audit and Risk Committee:	\$10,000
Member of Compensation Committee:	\$5,000
Member of Nominating and Corporate Governance Committee:	\$2,500

All cash compensation will be paid quarterly in arrears on a prorated basis (each payment date for such prior fiscal quarter, a “ **Retainer Payment Date** ”). For the avoidance of doubt, an Outside Director who serves as chairperson of a committee of the Board will not also be paid the additional annual cash retainer for his or her service as a member of such committee. No Outside Director will receive per meeting attendance fees for attending meetings of the Board or its committees.

## 2. EQUITY COMPENSATION

Outside Directors may be granted all types of equity awards (except incentive stock options) under the Plan or any other Company equity plan in place at the time of grant, including discretionary Awards not covered under this Policy. All grants of Awards to Outside Directors under this Policy will be made in accordance with this Section 2 and no Awards may be made if they would exceed any limitations in the Plan.

### (a) Elections To Receive Restricted Stock Units in Lieu of Cash Retainers

(i) Retainer Award. Each Outside Director may elect to convert all of his or her cash compensation under Section 1 into an Award of Restricted Stock Units (each a “**Retainer Award**”) in accordance with this Section 2 (such election, a “**Retainer Award Election**”). If an Outside Director timely makes a Retainer Award Election, on each Retainer Payment Date to which that Retainer Award Election applies, such Outside Director automatically will be granted an Award of Restricted Stock Units covering a number of units equal to (A) the aggregate amount of cash compensation otherwise payable to such Outside Director under Section 1 on such Retainer Payment Date divided by (B) the closing price per Share as of the last day of the fiscal quarter for which the Retainer Award relates. The Retainer Award will be fully vested on the grant date.

(ii) Election Mechanics. Each Retainer Award Election must be submitted to the Company’s General Counsel in writing at least 10 business days in advance of a Retainer Payment Date and subject to any other conditions specified by the Board or Compensation Committee. An Outside Director may only make a Retainer Award Election during a period in which the Company is not in a quarterly or special blackout period under the Company’s Insider Trading Policy and Guidelines with Respect to Certain Transactions in Securities. Once a Retainer Award Election is properly submitted, it will be in effect for the next Retainer Payment Date and will remain in effect for successive Retainer Payment Dates unless and until the Outside Director revokes it in accordance with Section 2(a)(iii) below. An Outside Director who fails to make a timely Retainer Award Election will not receive a Retainer Award and instead will receive the cash compensation under Section 1.

(iii) Revocation Mechanics. The revocation of any Retainer Award Election must be submitted to the Company’s General Counsel in writing at least 10 business days in advance of a Retainer Payment Date and subject to any other conditions specified by the Board or Compensation Committee. An Outside Director may only revoke a Retainer Award Election during a period in which the Company is not in a quarterly or special blackout period under the Company’s Insider Trading Policy and Guidelines with Respect to Certain Transactions in Securities. Once the revocation of the Retainer Award Election is properly submitted, it will be in effect for the next Retainer Payment Date and will remain in effect for successive Retainer Payment Dates unless and until the Outside Director makes a new Retainer Award Election in accordance with Section 2(a)(ii) above.

### (b) Automatic Outside Director Awards

(i) No Discretion. All grants of Awards to Outside Directors pursuant to this Section 2(b) will be automatic and nondiscretionary. No person will have any discretion to select which Outside Directors will be granted any Awards under this Section 2(b) or to determine the number of Shares to be covered by such Awards.

(ii) Initial Award. Upon an Outside Director's initial appointment to the Board (other than by appointment on the date of each annual meeting of the Company's stockholders (the "**Annual Meeting**")) following the Effective Date, such Outside Director automatically will be granted an Award of Restricted Stock Units with a grant date fair value (determined in accordance with U.S. generally accepted accounting principles) of \$250,000 multiplied by a fraction (A) the numerator of which is (x) 12 minus (y) the number of months between the date of the last Annual Meeting and the date the Outside Director becomes a member of the Board and (B) the denominator of which is 12 (an "**Initial Award**"). Subject to Section 2(b)(v), each Initial Award will fully vest upon the earlier of: (i) the first anniversary of the grant date; or (ii) the next Annual Meeting, in each case subject to the Outside Director continuing to be a Service Provider through the vesting date.

(iii) Annual Award. On the date of each Annual Meeting following the Effective Date, each Outside Director automatically will be granted an Award of Restricted Stock Units with a grant date fair value (determined in accordance with U.S. generally accepted accounting principles) of \$250,000 (an "**Annual Award**"). Subject to Section 2(b)(v), each Annual Award will fully vest upon the earlier of: (i) the first anniversary of the grant date; or (ii) the next Annual Meeting, in each case subject to the Outside Director continuing to be a Service Provider through the vesting date.

(iv) Lead Independent Director Annual Award. On the date of each Annual Meeting following the Effective Date, the Lead Independent Director automatically will be granted an additional Award of Restricted Stock Units with a grant date fair value (determined in accordance with U.S. generally accepted accounting principles) of \$70,000 (the "**Lead Independent Director Annual Award**"). Subject to Section 2(b)(v), each Lead Independent Director Annual Award will fully vest upon the earlier of: (i) the first anniversary of the grant date; or (ii) the next Annual Meeting, in each case subject to the Lead Independent Director continuing to be a Service Provider through the vesting date.

(v) Change in Control. In the event of a Change in Control, each Outside Director will fully vest in his or her Awards granted under this Policy.

### 3. ADDITIONAL PROVISIONS

All provisions of the Plan not inconsistent with this Policy will apply to Awards granted to Outside Directors.

### 4. REVISIONS

The Board in its discretion may at any time change and otherwise revise the terms of the cash compensation granted under this Policy, including, without limitation, the amount or timing of payment of any future grants of cash compensation. The Board in its discretion may at any time change and otherwise revise the terms of Awards to be granted under this Policy, including, without limitation, the number of Shares subject thereto. The Board in its discretion may at any time suspend or terminate the Policy.

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO  
SECURITIES EXCHANGE ACT OF 1934 RULES 13a-14(a) AND 15d-14(a),  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jack Dorsey, certify that:

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

Date: August 4, 2016

By: /s/ Jack Dorsey  
*Jack Dorsey*  
*President, Chief Executive Officer, and Chairman*

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO  
SECURITIES EXCHANGE ACT OF 1934 RULES 13a-14(a) AND 15d-14(a),  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Sarah Friar, certify that:

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

Date: August 4, 2016

By: /s/ Sarah Friar  
Sarah Friar  
Chief Financial Officer

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jack Dorsey, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Square, Inc. for the fiscal quarter ended June 30, 2016 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Square, Inc.

Date: August 4, 2016

By: /s/ Jack Dorsey  
Jack Dorsey  
*President, Chief Executive Officer, and Chairman*

I, Sarah Friar, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Square, Inc. for the fiscal quarter ended June 30, 2016 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Square, Inc.

Date: August 4, 2016

By: /s/ Sarah Friar  
Sarah Friar  
*Chief Financial Officer*