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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2020

OR

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

For the transition period from ________ to ________

Commission File Number: 001-37622

Square, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**80-0429876**
(State or other jurisdiction of incorporation or organization)	**(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)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, $0.0000001 par value per share	SQ	New York Stock Exchange

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

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

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

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

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

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

As of July 31, 2020, the number of shares of the registrant's Class A common stock outstanding was 371,293,974 and the number of shares of the registrant's Class B common stock outstanding was 72,237,774.

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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, the impact of the COVID-19 pandemic and related public health measures on our business, customers, and employees, our expectations regarding transaction and loan losses, the potential exposure as a non-bank participant in the Paycheck Protection Program ("PPP") and its effect on our liquidity and financial results and the ability of our customers to comply with requirements and otherwise perform with respect to loans obtained under such program, our anticipated growth and growth strategies and our ability to effectively manage that growth, our ability to invest in and develop our products and services to operate with changing technology, the expected benefits of our products to our customers and the impact of our products on our business, and our expectations regarding Gross Payment Volume (GPV) and revenue, including our expectations regarding the Cash App and Seller ecosystems, our expectations regarding product launches, the expected impact of our recent acquisitions, our plans with respect to patents and other intellectual property, our expectations regarding litigation and positions we have taken with respect to our tax classification, our expectations regarding share-based compensation, our expectations regarding the impacts of accounting guidance, our expectations regarding restricted cash, and the sufficiency of our cash and cash equivalents and cash generated from operations to meet our working capital and capital expenditure requirements.

We have based the forward-looking statements on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations, prospects, business strategy, and financial needs. The outcome of the events described in these forward-looking statements is subject to known and unknown risks, uncertainties, and other factors described in the section titled "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q. We operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. We cannot assure you that the results, events, and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events, or circumstances could differ materially from those described in the forward-looking statements.

All forward-looking statements are based on information and estimates available to the Company at the time of this Quarterly Report on Form 10-Q and are not guarantees of future performance. 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.

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, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 1,972,762	$ 1,047,118
Investments in short-term debt securities	714,348	492,456
Settlements receivable	879,464	588,692
Customer funds	1,733,107	676,292
Loans held for sale	567,499	164,834
Other current assets	319,890	250,409
Total current assets	6,187,070	3,219,801
Property and equipment, net	167,062	149,194
Goodwill	295,759	266,345
Acquired intangible assets, net	99,802	69,079
Investments in long-term debt securities	446,685	537,303
Operating lease right-of-use assets	449,445	113,148
Other non-current assets	166,449	196,388
Total assets	$ 7,812,272	$ 4,551,258
Liabilities and Stockholders' Equity		
Current liabilities:		
Customers payable	$ 2,568,418	$ 1,273,135
Settlements payable	179,131	95,834
Accrued expenses and other current liabilities	393,576	297,841
Operating lease liabilities, current	43,627	27,275
PPP Liquidity Facility advances	447,764	—
Total current liabilities	3,632,516	1,694,085
Long-term debt	1,778,428	938,832
Operating lease liabilities, non-current	384,801	108,830
Other non-current liabilities	90,220	94,461
Total liabilities	5,885,965	2,836,208
Commitments and contingencies (Note 17)		
Stockholders' equity:		
Preferred stock, $0.0000001 par value: 100,000,000 shares authorized at June 30, 2020 and December 31, 2019. None issued and outstanding at June 30, 2020 and December 31, 2019.	—	—
Class A common stock, $0.0000001 par value: 1,000,000,000 shares authorized at June 30, 2020 and December 31, 2019; 370,102,185 and 352,386,562 issued and outstanding at June 30, 2020 and December 31, 2019, respectively.	—	—
Class B common stock, $0.0000001 par value: 500,000,000 shares authorized at June 30, 2020 and December 31, 2019; 72,287,165 and 80,410,158 issued and outstanding at June 30, 2020 and December 31, 2019, respectively.	—	—
Additional paid-in capital	2,549,638	2,223,749
Accumulated other comprehensive income	4,366	1,629
Accumulated deficit	(627,697)	(510,328)
Total stockholders' equity	1,926,307	1,715,050
Total liabilities and stockholders' equity	$ 7,812,272	$ 4,551,258

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,	
	2020	2019	2020	2019
Revenue:				
Transaction-based revenue	$ 682,572	$ 775,510	$ 1,440,673	$ 1,432,272
Subscription and services-based revenue	346,275	251,383	642,510	470,240
Hardware revenue	19,322	22,260	39,997	40,472
Bitcoin revenue	875,456	125,085	1,181,554	190,613
Total net revenue	1,923,625	1,174,238	3,304,734	2,133,597
Cost of revenue:				
Transaction-based costs	388,106	490,349	853,885	899,418
Subscription and services-based costs	50,169	60,119	90,880	120,642
Hardware costs	28,315	33,268	62,687	60,209
Bitcoin costs	858,041	122,938	1,157,467	187,634
Amortization of acquired technology	2,231	1,719	4,551	3,095
Total cost of revenue	1,326,862	708,393	2,169,470	1,270,998
Gross profit	596,763	465,845	1,135,264	862,599
Operating expenses:				
Product development	206,825	174,201	401,811	328,551
Sales and marketing	238,096	156,421	432,631	290,134
General and administrative	136,386	100,508	265,881	202,106
Transaction and loan losses	37,603	34,264	146,486	62,105
Amortization of acquired customer assets	905	1,294	1,795	2,588
Total operating expenses	619,815	466,688	1,248,604	885,484
Operating loss	(23,052)	(843)	(113,340)	(22,885)
Interest expense, net	14,769	5,143	23,975	9,824
Other expense (income), net	(25,591)	1,230	(19,729)	12,529
Loss before income tax	(12,230)	(7,216)	(117,586)	(45,238)
Income tax benefit	(752)	(476)	(217)	(347)
Net loss	$ (11,478)	$ (6,740)	$ (117,369)	$ (44,891)
Net loss per share:				
Basic	$ (0.03)	$ (0.02)	$ (0.27)	$ (0.11)
Diluted	$ (0.03)	$ (0.02)	$ (0.27)	$ (0.11)
Weighted-average shares used to compute net loss per share				
Basic	440,117	423,305	437,529	421,297
Diluted	440,117	423,305	437,529	421,297

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,	
	2020	**2019**	**2020**	**2019**
Net loss	$ (11,478)	$ (6,740)	$ (117,369)	$ (44,891)
Net foreign currency translation adjustments	6,367	261	(2,021)	527
Net unrealized gain on revaluation of intercompany loans	—	—	—	75
Net unrealized gain on marketable debt securities	1,431	2,237	4,758	4,525
Total comprehensive loss	$ (3,680)	$ (4,242)	$ (114,632)	$ (39,764)

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)

	Six Months Ended June 30,	
	2020	**2019**
Cash flows from operating activities:		
Net loss	$ (117,369)	$ (44,891)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	41,117	37,754
Non-cash interest and other	32,769	16,013
Loss on extinguishment of long-term debt	990	—
Share-based compensation	173,713	140,554
Loss (gain) on revaluation of equity investment	(20,999)	18,929
Non-cash lease expense	32,343	14,354
Transaction and loan losses	146,486	62,105
Change in deferred income taxes	(1,024)	(2,229)
Changes in operating assets and liabilities:		
Settlements receivable	(302,103)	(1,148,376)
Customer funds	(953,387)	(125,042)
Purchase of loans held for sale	(1,466,391)	(1,035,500)
Sales and principal payments of loans held for sale	1,041,208	975,823
Customers payable	1,291,968	1,052,867
Settlements payable	83,297	236,515
Charge-offs to accrued transaction losses	(37,783)	(36,050)
Other assets and liabilities	(96,668)	3,010
Net cash provided by (used in) operating activities	(151,833)	165,836
Cash flows from investing activities:		
Purchase of marketable debt securities	(724,862)	(354,908)
Proceeds from maturities of marketable debt securities	267,686	220,229
Proceeds from sale of marketable debt securities	330,626	116,522
Purchase of marketable debt securities from customer funds	(265,287)	(88,064)
Proceeds from maturities of marketable debt securities from customer funds	142,000	63,000
Proceeds from sale of marketable debt securities from customer funds	22,457	—
Purchase of property and equipment	(56,561)	(30,162)
Payments for other investments	—	(2,000)
Business combinations, net of cash acquired	(18,354)	(20,372)
Net cash used in investing activities	(302,295)	(95,755)
Cash flows from financing activities:		
Proceeds from issuance of convertible senior notes, net	986,241	—
Purchase of convertible senior note hedges	(149,200)	—
Proceeds from issuance of warrants	99,500	—
Proceeds from PPP Liquidity Facility advances	447,764	—
Payments for tax withholding related to vesting of restricted stock units	(93,654)	(106,663)
Proceeds from the exercise of stock options and purchases under the employee stock purchase plan, net	78,085	66,921
Other financing activities	(1,924)	(2,663)
Net cash provided by (used in) financing activities	1,366,812	(42,405)
Effect of foreign exchange rate on cash and cash equivalents	(5,182)	2,340
Net increase in cash, cash equivalents, and restricted cash	907,502	30,016
Cash, cash equivalents, and restricted cash, beginning of period	1,098,706	632,847
Cash, cash equivalents, and restricted cash, end of period	$ 2,006,208	$ 662,863

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

SQUARE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
(In thousands, except for number of shares)

	Class A and B common stock		Additional paid-in	Accumulated other comprehensive	Accumulated	Total stockholders'
	Shares	Amount	capital	loss	deficit	equity
Balance at December 31, 2019	432,796,720	$ —	$ 2,223,749	$ 1,629	$ (510,328)	$ 1,715,050
Net loss	—	—	—	—	(105,891)	(105,891)
Shares issued in connection with employee stock plans	5,222,525	—	31,406	—	—	31,406
Issuance of common stock in connection with business combination	357,017	—	14,999	—	—	14,999
Change in other comprehensive loss	—	—	—	(5,061)	—	(5,061)
Share-based compensation	—	—	79,562	—	—	79,562
Tax withholding related to vesting of restricted stock units	(722,606)	—	(48,772)	—	—	(48,772)
Conversion feature of convertible senior notes, due 2025, net of allocated costs	—	—	152,258	—	—	152,258
Purchase of bond hedges in conjunction with issuance of convertible senior notes, due 2025	—	—	(149,200)	—	—	(149,200)
Sale of warrants in conjunction with issuance of convertible senior notes, due 2025	—	—	99,500	—	—	99,500
Issuance of common stock in conjunction with the conversion of senior notes, due 2022	1,109,980	—	24,094	—	—	24,094
Balance at March 31, 2020	438,763,636	—	2,427,596	(3,432)	(616,219)	1,807,945
Net loss	—	—	—	—	(11,478)	(11,478)
Shares issued in connection with employee stock plans	4,802,969	—	46,679	—	—	46,679
Issuance of common stock in connection with business combination	250,957	—	20,320	—	—	20,320
Change in other comprehensive loss	—	—	—	7,798	—	7,798
Share-based compensation	—	—	99,925	—	—	99,925
Tax withholding related to vesting of restricted stock units	(703,895)	—	(44,882)	—	—	(44,882)
Exercise of bond hedges in conjunction with the conversion of senior notes, due 2022	(724,316)	—	—	—	—	—
Balance at June 30, 2020	442,389,351	$ —	$ 2,549,638	$ 4,366	$ (627,697)	$ 1,926,307

	Class A and B common stock		Additional paid-in	Accumulated other comprehensive	Accumulated	Total stockholders'
	Shares	Amount	capital	loss	deficit	equity
Balance at December 31, 2018	417,048,006	$ —	$ 2,012,328	$ (6,053)	$ (885,774)	$ 1,120,501
Net loss	—	—	—	—	(38,151)	(38,151)
Shares issued in connection with employee stock plans	5,582,633	—	25,364	—	—	25,364
Change in other comprehensive loss	—	—	—	2,629	—	2,629
Share-based compensation	—	—	62,835	—	—	62,835
Tax withholding related to vesting of restricted stock units	(741,324)	—	(50,801)	—	—	(50,801)
Issuance of common stock in conjunction with the conversion of senior notes, due 2022	43	—	1	—	—	1
Exercise of bond hedges in conjunction with the conversion of senior notes, due 2022	(250,614)	—	—	—	—	—
Recovery of common stock in connection with indemnification settlement agreement	(14,798)		(789)	—	—	(789)
Balance at March 31, 2019	421,623,946	—	2,048,938	(3,424)	(923,925)	1,121,589
Net loss	—	—	—	—	(6,740)	(6,740)
Shares issued in connection with employee stock plans	5,371,051	—	41,593	—	—	41,593
Change in other comprehensive loss	—	—	—	2,498	—	2,498
Share-based compensation	—	—	81,392	—	—	81,392
Tax withholding related to vesting of restricted stock units	(777,006)	—	(55,862)	—	—	(55,862)
Issuance of common stock in conjunction with the conversion of senior notes, due 2022	86	—	2	—	—	2
Exercise of bond hedges in conjunction with the conversion of senior notes, due 2022	(84)	—	—	—	—	—
Balance at June 30, 2019	426,217,993	$ —	$ 2,116,063	$ (926)	$ (930,665)	$ 1,184,472

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

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 empower businesses, sellers and individuals to participate in the economy. Square enables sellers to accept card payments and also provides reporting and analytics, and next-day settlement. Square’s point-of-sale software and other business services help sellers manage inventory, locations, and employees; access financing; engage buyers; build a website or online store; and grow sales. Cash App is an easy way to send, spend, and store money. Square was founded in 2009 and is headquartered in San Francisco, with offices in the United States, Canada, Japan, Australia, Ireland, and the United Kingdom.

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, 2019 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 consolidated 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, 2020 are not necessarily indicative of the results that may be expected for the year ending December 31, 2020, 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 the Consolidated Financial Statements and related notes in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

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. Generally, the Company's estimates and assumptions consider current and past experience, to the extent that historical experience is predictive of future performance.

Estimates, judgments, and assumptions in these consolidated financial statements include, but are not limited to, those related to revenue recognition, accrued transaction losses, credit loss allowances from marketable debt securities, contingencies, valuation of the debt component of convertible senior notes, valuation of loans held for sale including loans under the Paycheck Protection Program ("PPP"), valuation of goodwill and acquired intangible assets, determination of income and other taxes, operating and financing lease right-of-use assets and related liabilities, assessing the likelihood of adverse outcomes from claims and disputes, and share-based compensation.

In March 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. The Company operates in geographic locations that have been impacted by COVID-19 and that are subject to various mandated public health ordinances, which have negatively impacted the business operations of the Company and its customers. As a consequence of the pandemic and related public health orders, the Company’s customers are now exposed to a variety of uncertainties that could negatively impact their ability to repay outstanding amounts, or even continue in business. As of the date of issuance of the financial statements, the Company has revised or updated the carrying values of its assets or liabilities based on estimates, judgments and circumstances we are aware of, particularly, the expected impact of COVID-19.

Due to the impact of the COVID-19 outbreak, the Company’s estimates of accrued transaction losses and valuation of loans held for sale were subject to greater uncertainty. The Company's estimates were based on historical experience, adjusted for market data relevant to the current economic environment. Additionally, the Company incorporated market data for similar historical periods of recessionary economic conditions and uncertainty in developing such estimates and assumptions. See Note 10, *Other Consolidated Balance Sheet Components (Current)*, for further details on transaction losses and Note 5, *Fair Value of Financial Instruments*, for further details on amortized cost over fair value of the loans. These estimates may change, as new events develop and additional information is obtained. Actual results could differ from these estimates, and such differences may be material to the Company's financial statements.

The extent of the impact of COVID-19 on the Company's operational and financial performance will depend on certain developments, including, but not limited to, the duration, extent of spread and severity of the outbreak, duration and changes to local, state and federal issued public health orders, impact on our customers and our sales cycles, impact on our employees, various government stimulus assistance programs, and impact on regional and worldwide economies and financial markets in general, all of which are uncertain and cannot be predicted.

Concentration of Credit Risk

For the three and six months ended June 30, 2020 and June 30, 2019, the Company had no customer that accounted for greater than 10% of total net revenue.

The Company had two third-party payment processors that represented approximately 50% and 35% of settlements receivable as of June 30, 2020. As of December 31, 2019, the Company had three parties that represented approximately 48%, 29%, and 9% of settlements receivable. All other third-party processors were insignificant.

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash, marketable debt securities, settlements receivables, customer funds, and loans held for sale. The associated risk of concentration for cash and cash equivalents and restricted cash is mitigated by banking with creditworthy institutions. At certain times, amounts on deposit exceed federal deposit insurance limits. The associated risk of concentration for marketable debt securities is mitigated by holding a diversified portfolio of highly rated investments. Settlements receivable are amounts due from well-established payment processing companies and normally take one or two business days to settle which mitigates the associated risk of concentration. The associated risk of concentration for loans held for sale is partially mitigated by credit evaluations that are performed prior to facilitating the offering of loans and ongoing performance monitoring of the Company’s loan customers. The risk associated with the PPP loans is considered low due to government guarantees on those loans.

Recent Accounting Pronouncements

Recently adopted accounting pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses*, which requires the measurement and recognition of expected credit losses for financial assets held. It also eliminates the concept of other-than-temporary impairment and requires credit losses related to available for sale debt securities to be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company adopted this guidance effective January 1, 2020 and has applied the guidance prospectively. The Company has concluded that the adoption of the guidance did not have a material impact on the balances reported in its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment*. The new guidance eliminates the requirement to calculate the implied fair value of goodwill assuming a hypothetical purchase price allocation (i.e., Step 2 of the goodwill impairment test) to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value, not to exceed the carrying amount of goodwill. This standard should be adopted when the Company performs its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The amendments should be applied on a prospective basis. The Company adopted this guidance effective January 1, 2020 and will apply the guidance during its annual goodwill impairment test for the year ending December 31, 2020. The adoption of this guidance did not have a material impact on the consolidated financial statements and related disclosures.

In July 2018, the FASB issued ASU No. 2018-13, *Changes to the Disclosure Requirements for Fair Value Measurement,* which will remove, modify, and add disclosure requirements for fair value measurements to improve the overall usefulness of such disclosures. 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 for any removed or modified disclosure requirements. Transition is on a prospective basis for the new and modified disclosures, and on a retrospective basis for disclosures that have been eliminated. The Company adopted this guidance effective January 1, 2020 and has applied the guidance prospectively, and included additional disclosures required by the new guidance relating to significant unobservable inputs used to develop Level 3 fair value measurements.

In August 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract,* which is intended to align the requirements for capitalization of implementation costs incurred in a cloud computing arrangement that is a service contract with the existing guidance for internal-use software. 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 guidance provides flexibility in adoption, allowing for either retrospective adjustment or prospective adjustment for all implementation costs incurred after the date of adoption. The Company adopted this guidance effective January 1, 2020 and has applied the guidance prospectively. The adoption of this guidance did not have a material impact on the consolidated financial statements and related disclosures.

In April 2019, the FASB issued ASU No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments — Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*. The amendments clarify the scope of the credit losses standard and hedge accounting among other things. The Company adopted ASC 326 on January 1, 2020 for credit losses. With respect to hedge accounting, the amendments address partial-term fair value hedges and fair value hedge basis adjustments, among other things. 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 as long an entity has also adopted the amendments in ASU No. 2016-13. The adoption of this guidance did not have a material impact on the consolidated financial statements and related disclosures. For entities which have already adopted ASU No. 2017-12, they are permitted to elect either retrospectively or prospectively adopt the amendments. The Company had previously adopted ASU No. 2017-12 on January 1, 2019 and therefore is eligible to and has prospectively adopted the amendments.

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes: *Simplifying the Accounting for Income Taxes*, as part of its overall simplification initiative to reduce costs and complexity of applying accounting standards while maintaining or improving the usefulness of the information provided to users of financial statements. Among other things, the new guidance simplifies intraperiod tax allocation and reduces the complexity in accounting for income taxes with year-to-date losses in interim periods. The guidance is effective for financial statements issued for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years, with early adoption permitted. The Company early adopted this guidance effective January 1, 2020 and has applied the guidance prospectively. The adoption did not have a material impact on the consolidated financial statements and related disclosures.

NOTE 2 - REVENUE

The following table presents the Company's revenue disaggregated by revenue source (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenue from Contracts with Customers:				
Transaction-based revenue	$ 682,572	$ 775,510	$ 1,440,673	$ 1,432,272
Subscription and services-based revenue	328,763	216,491	584,646	405,693
Hardware revenue	19,322	22,260	39,997	40,472
Bitcoin revenue	875,456	125,085	1,181,554	190,613
Revenue from other sources:				
Subscription and services-based revenue	$ 17,512	$ 34,892	$ 57,864	$ 64,547

The deferred revenue balances were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Deferred revenue, beginning of the period	$ 47,046	$ 42,160	$ 44,331	$ 36,451
Deferred revenue, end of the period	51,549	44,812	51,549	44,812
Revenue recognized in the period from amounts included in deferred revenue at the beginning of the period	$ 16,288	$ 14,889	$ 26,483	$ 21,786

NOTE 3 - INVESTMENTS IN DEBT SECURITIES

The Company's short-term and long-term investments as of June 30, 2020 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term debt securities:				
U.S. agency securities	$ 206,566	$ 1,172	$ (287)	$ 207,451
Corporate bonds	80,593	199	(187)	80,605
Commercial paper	8,992	—	—	8,992
Municipal securities	8,933	57	(15)	8,975
U.S. government securities	380,662	1,743	(377)	382,028
Foreign government securities	26,279	42	(24)	26,297
Total	$ 712,025	$ 3,213	$ (890)	$ 714,348
Long-term debt securities:				
U.S. agency securities	$ 131,430	$ 645	$ (541)	$ 131,534
Corporate bonds	143,213	1,232	(310)	144,135
Municipal securities	6,026	84	(66)	6,044
U.S. government securities	127,916	1,670	(791)	128,795
Foreign government securities	35,973	307	(103)	36,177
Total	$ 444,558	$ 3,938	$ (1,811)	$ 446,685

The Company's short-term and long-term investments as of December 31, 2019 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term debt securities:				
U.S. agency securities	$ 131,124	$ 409	$ (11)	$ 131,522
Corporate bonds	67,169	580	(28)	67,721
Municipal securities	6,667	109	—	6,776
U.S. government securities	264,069	1,083	(17)	265,135
Foreign government securities	21,270	48	(16)	21,302
Total	$ 490,299	$ 2,229	$ (72)	$ 492,456
Long-term debt securities:				
U.S. agency securities	$ 63,645	$ 612	$ (189)	$ 64,068
Corporate bonds	141,307	1,832	(61)	143,078
Municipal securities	9,594	151	(39)	9,706
U.S. government securities	294,682	1,287	(190)	295,779
Foreign government securities	24,625	86	(39)	24,672
Total	$ 533,853	$ 3,968	$ (518)	$ 537,303

The amortized cost of investments classified as cash equivalents approximated the fair value due to the short-term nature of the investments.

The Company's gross unrealized losses and fair values for those investments that were in an unrealized loss position as of June 30, 2020 and December 31, 2019, aggregated by investment category and the length of time that individual securities have been in a continuous loss position are as follows (in thousands):

	June 30, 2020					
	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Short-term debt securities:						
U.S. agency securities	$ 47,472	$ (287)	$ —	$ —	$ 47,472	$ (287)
Corporate bonds	42,235	(187)	—	—	42,235	(187)
Municipal securities	3,697	(15)	—	—	3,697	(15)
U.S. government securities	127,860	(377)	—	—	127,860	(377)
Foreign government securities	18,467	(24)	—	—	18,467	(24)
Total	$ 239,731	$ (890)	$ —	$ —	$ 239,731	$ (890)
Long-term debt securities:						
U.S. agency securities	$ 13,382	$ (541)	$ —	$ —	$ 13,382	$ (541)
Corporate bonds	37,869	(310)	—	—	37,869	(310)
Municipal securities	1,764	(66)	—	—	1,764	(66)
U.S. government securities	—	(791)	—	—	—	(791)
Foreign government securities	13,893	(103)	—	—	13,893	(103)
Total	$ 66,908	$ (1,811)	$ —	$ —	$ 66,908	$ (1,811)

	December 31, 2019					
	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Short-term debt securities:						
U.S. agency securities	$ 23,896	$ (9)	$ 4,996	$ (2)	$ 28,892	$ (11)
Corporate bonds	5,507	(27)	2,502	(1)	8,009	(28)
U.S. government securities	21,481	(8)	14,984	(9)	36,465	(17)
Foreign government securities	13,499	(16)	—	—	13,499	(16)
Total	$ 64,383	$ (60)	$ 22,482	$ (12)	$ 86,865	$ (72)
Long-term debt securities:						
U.S. agency securities	$ 16,740	$ (189)	$ —	$ —	$ 16,740	$ (189)
Corporate bonds	16,708	(61)	—	—	16,708	(61)
Municipal securities	1,005	(39)	—	—	1,005	(39)
U.S. government securities	42,210	(162)	—	(28)	42,210	(190)
Foreign government securities	16,383	(39)	—	—	16,383	(39)
Total	$ 93,046	$ (490)	$ —	$ (28)	$ 93,046	$ (518)

The U.S. government and U.S. agency securities are either explicitly or implicitly guaranteed by the U.S. government and are highly rated by major rating agencies. The corporate bonds are issued by highly rated entities. The foreign government securities are issued by highly rated international entities. The Company has the ability and intent to hold these investments with unrealized losses for a reasonable period of time sufficient for the recovery of their amortized cost bases, which may be at maturity. The Company determines any realized gains or losses on the sale of marketable debt securities on a specific identification method, and records such gains and losses as a component of other expense, net.

The Company does not have any available for sale debt securities for which the Company has recorded credit related losses.

The contractual maturities of the Company's short-term and long-term investments as of June 30, 2020 are as follows (in thousands):

	Amortized Cost	Fair Value
Due in one year or less	$ 712,025	$ 714,348
Due in one to five years	444,558	446,685
Total	$ 1,156,583	$ 1,161,033

NOTE 4 - CUSTOMER FUNDS

The following table presents the assets underlying customer funds (in thousands):

	June 30, 2020	December 31, 2019
Cash	$ 117,658	$ 422,459
Cash Equivalents:		
Money market funds	1,229,498	233
Reverse repurchase agreement (i)	30,006	—
U.S. agency securities	10,997	8,585
U.S. government securities	5,000	6,984
Short-term debt securities:		
U.S. agency securities	127,796	—
U.S. government securities	212,152	238,031
Total	$ 1,733,107	$ 676,292

(i) The Company has accounted for the reverse repurchase agreement with a third party as an overnight lending arrangement, collateralized by the securities subject to the repurchase agreement. The Company classifies the amounts due from the counterparty as cash equivalents due to the short term nature.

The Company's investments within customer funds as of June 30, 2020 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term debt securities:				
U.S. agency securities	$ 127,727	$ 71	$ (2)	$ 127,796
U.S. government securities	211,907	354	(109)	212,152
Total	$ 339,634	$ 425	$ (111)	$ 339,948

The Company's investments within customer funds as of December 31, 2019 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term debt securities:				
U.S. government securities	$ 237,909	$ 144	$ (22)	$ 238,031
Total	$ 237,909	$ 144	$ (22)	$ 238,031

The amortized cost of investments classified as cash equivalents approximated the fair value due to the short-term nature of the investments.

The gross unrealized losses and fair values for those investments that were in an unrealized loss position as of June 30, 2020 and December 31, 2019, aggregated by investment category and the length of time that individual securities have been in a continuous loss position are as follows (in thousands):

	June 30, 2020					
	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Short-term debt securities:						
U.S. agency securities	$ 19,987	$ (2)	$ —	$ —	$ 19,987	$ (2)
U.S. government securities	63,978	(109)	—	—	63,978	(109)
Total	$ 83,965	$ (111)	$ —	$ —	$ 83,965	$ (111)

	December 31, 2019					
	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Short-term debt securities:						
U.S. government securities	$ 56,984	$ (22)	$ —	$ —	$ 56,984	$ (22)
Total	$ 56,984	$ (22)	$ —	$ —	$ 56,984	$ (22)

The unrealized losses above were caused by interest rate changes. The U.S. government securities are either explicitly or implicitly guaranteed by the U.S. government and are highly rated by major rating agencies. The Company has the ability and intent to hold these investments with unrealized losses for a reasonable period of time sufficient for the recovery of their amortized cost bases, which may be at maturity. The Company determines any realized gains or losses on the sale of marketable debt securities on a specific identification method, and records such gains and losses as a component of other expense, net.

The Company does not have any available for sale debt securities for which the Company has recorded credit related losses.

The contractual maturities of the Company's investments within customer funds as of June 30, 2020 are as follows (in thousands):

	Amortized Cost	Fair Value
Due in one year or less	$ 339,634	$ 339,948
Due in one to five years	—	—
Total	$ 339,634	$ 339,948

NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company measures its cash equivalents, customer funds, short-term and long-term marketable debt securities, and marketable equity investments at fair value. The Company classifies these 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, 2020			December 31, 2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Cash Equivalents:						
Money market funds	$ 593,461	$ —	$ —	$ 213,576	$ —	$ —
U.S. agency securities	—	27,334	—	—	19,976	—
U.S. government securities	21,084	—	—	46,914	—	—
Municipal securities	—	450	—	—	—	—
Customer funds:						
Money market funds	1,229,498	—	—	233	—	—
Reverse repurchase agreement	30,006	—	—	—	—	—
U.S. agency securities	—	138,793	—	—	8,585	—
U.S. government securities	217,152	—	—	245,015	—	—
Short-term debt securities:						
U.S. agency securities	—	207,451	—	—	131,522	—
Corporate bonds	—	80,605	—	—	67,721	—
Commercial paper	—	8,992	—	—	—	—
Municipal securities	—	8,975	—	—	6,776	—
U.S. government securities	382,028	—	—	265,135	—	—
Foreign government securities	—	26,297	—	—	21,302	—
Long-term debt securities:						
U.S. agency securities	—	131,534	—	—	64,068	—
Corporate bonds	—	144,135	—	—	143,078	—
Municipal securities	—	6,044	—	—	9,706	—
U.S. government securities	128,795	—	—	295,779	—	—
Foreign government securities	—	36,177	—	—	24,672	—
Total	$ 2,602,024	$ 816,787	$ —	$ 1,066,652	$ 497,406	$ —

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

The Company estimates the fair value of its convertible senior notes based on their last actively traded prices (Level 1) or market observable inputs (Level 2). The estimated fair value and carrying value of the convertible senior notes were as follows (in thousands):

	June 30, 2020		December 31, 2019	
	Carrying Value	Fair Value (Level 2)	Carrying Value	Fair Value (Level 2)
2025 Notes	$ 842,790	$ 1,134,270	$ —	$ —
2023 Notes	764,121	1,282,098	748,564	962,516
2022 Notes	171,517	837,591	190,268	578,817
Total	$ 1,778,428	$ 3,253,959	$ 938,832	$ 1,541,333

The estimated fair value and carrying value of loans held for sale is as follows (in thousands):

	June 30, 2020		December 31, 2019	
	Carrying Value	Fair Value (Level 3)	Carrying Value	Fair Value (Level 3)
Loans held for sale	$ 567,499	$ 575,679	$ 164,834	$ 173,360

For the three and six months ended June 30, 2020, the Company recorded a charge for the excess of amortized cost over fair value of the loans of $0.5 million and $22.5 million, respectively. For the three and six months ended June 30, 2019, the Company recorded a charge for the excess of amortized cost over fair value of the loans of $6.4 million and $13.1 million, respectively. To determine the fair value of the loans held for sale, the Company utilizes industry-standard valuation modeling, such as discounted cash flow models, taking into account the estimated timing and amounts of periodic repayments. In estimating the expected timing and amounts of the future periodic repayments for the loans outstanding as of June 30, 2020, the Company considered other relevant market data in developing such estimates and assumptions, including the impact of the COVID-19 outbreak, as well as the conditions and uncertainty experienced during similar historical periods of recessionary economic conditions. With respect to PPP loans, the Company also considers the impact of government guarantees and loan forgiveness on the timing and amounts of future cash flows. As of June 30, 2020, $465.5 million of the carrying value of loans held for sale was attributable to loans under the PPP. As the loans under the PPP qualify for forgiveness if certain criteria are met or are guaranteed by the U.S. government through the Small Business Administration ("SBA"), the related credit losses were immaterial as of June 30, 2020.

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, 2020 and 2019, the Company did not have any transfers in or out of Level 1, Level 2, or Level 3 assets or liabilities.

NOTE 6 - PROPERTY AND EQUIPMENT, NET

The following is a summary of property and equipment, less accumulated depreciation and amortization (in thousands):

	June 30, 2020	December 31, 2019
Leasehold improvements	$ 131,175	$ 111,942
Computer equipment	114,501	106,469
Capitalized software	98,858	81,984
Office furniture and equipment	29,866	27,328
Total	374,400	327,723
Less: Accumulated depreciation and amortization	(207,338)	(178,529)
Property and equipment, net	$ 167,062	$ 149,194

Depreciation and amortization expense on property and equipment was $16.9 million and $32.8 million for the three and six months ended June 30, 2020, respectively. Depreciation and amortization expense on property and equipment was $14.8 million and $30.3 million for the three and six months ended June 30, 2019, respectively.

NOTE 7 - ACQUISITIONS

In the six months ended June 30, 2020, the Company completed certain acquisitions for a total consideration of $63.3 million comprised of $28.0 million in cash and $35.3 million in Class A common stock. Of the total purchase consideration, $29.5 million was allocated to goodwill which was primarily attributable to the value of expected synergies created by incorporating the acquired technology into the Company's technology platform and the value of the assembled workforce, while $39.0 million was allocated to intangible assets. None of the goodwill generated from the acquisition or the acquired intangible assets are expected to be deductible for tax purposes.

NOTE 8 - 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.

The change in carrying value of goodwill in the period was as follows (in thousands):

Balance at December 31, 2019	$ 266,345
Acquisitions	29,492
Other adjustments	(78)
Balance at June 30, 2020	$ 295,759

The Company performs an annual goodwill impairment test on December 31 and more frequently if events and circumstances indicate that the asset might be impaired.

Effective June 30, 2020, the Company changed its operating and reporting segments to reflect the manner in which the Chief Operating Decision Maker (CODM) reviews and assesses performance. Accordingly, the Company has two operating and reportable segments, which are Seller and Cash App (defined further in Note 18, *Segment and Geographical Information*), effective June 30, 2020. The Company allocated $183.4 million and $112.4 million of the goodwill balance at June 30, 2020 to Seller and Cash App, respectively. In addition, the Company completed an assessment of any potential goodwill impairment for the reporting units immediately before and after the reallocation and determined that no impairment existed as of June 30, 2020.

NOTE 9 - ACQUIRED INTANGIBLE ASSETS

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

	Balance at June 30, 2020			
	Weighted Average Estimated Useful Life	Cost	Accumulated Amortization	Net
Technology assets	6 years	$ 81,581	$ (36,424)	$ 45,157
Customer assets	12 years	48,200	(8,729)	39,471
Trade name	6 years	18,028	(6,089)	11,939
Other	8 years	5,699	(2,464)	3,235
Total		$ 153,508	$ (53,706)	$ 99,802

	Balance at December 31, 2019			
	Weighted Average Estimated Useful Life	Cost	Accumulated Amortization	Net
Technology assets	5 years	$ 53,900	$ (31,873)	$ 22,027
Customer assets	12 years	44,000	(6,934)	37,066
Trade name	4 years	11,300	(4,473)	6,827
Other	8 years	5,299	(2,140)	3,159
Total		$ 114,499	$ (45,420)	$ 69,079

All intangible assets are amortized over their estimated useful lives. As a result of the COVID-19 pandemic, the Company performed an impairment assessment of its intangible assets as of June 30, 2020, and concluded that no impairment charges were required.

The changes to the carrying value of intangible assets were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Acquired intangible assets, net, beginning of the period	$ 81,936	$ 79,697	$ 69,079	$ 77,102
Acquisitions	22,000	8,477	39,009	14,559
Amortization expense	(4,134)	(3,958)	(8,286)	(7,445)
Acquired intangible assets, net, end of the period	$ 99,802	$ 84,216	$ 99,802	$ 84,216

The estimated future amortization expense of intangible assets in future periods as of June 30, 2020 is as follows (in thousands):

Remainder of 2020	$ 9,291
2021	18,069
2022	15,995
2023	14,743
2024	11,763
Thereafter	29,941
Total	$ 99,802

NOTE 10 - OTHER CONSOLIDATED BALANCE SHEET COMPONENTS (CURRENT)

Other Current Assets

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

	June 30, 2020	December 31, 2019
Inventory, net	$ 55,422	$ 47,683
Restricted cash	19,761	38,873
Processing costs receivable	114,706	67,281
Prepaid expenses	29,669	22,758
Accounts receivable, net	38,163	33,863
Other	62,169	39,951
Total	$ 319,890	$ 250,409

Accrued Expenses and Other Current Liabilities

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

	June 30, 2020	December 31, 2019
Accrued expenses	$ 124,461	$ 128,387
Accrued transaction losses (i)	109,061	34,771
Accounts payable	24,548	42,116
Deferred revenue, current	44,593	38,104
Square Payroll payable (ii)	36,983	27,969
Other	53,930	26,494
Total	$ 393,576	$ 297,841

(i) The Company is exposed to potential credit losses related to transactions processed by sellers that are subsequently subject to chargebacks when the Company is unable to collect from the sellers primarily due to insolvency. Generally, the Company estimates the potential loss rates based on historical experience that is continuously adjusted for new information and incorporates, where applicable, reasonable and supportable forecasts about future expectations. In estimating the accrued transaction losses as of June 30, 2020, the Company has revised its estimates to reflect expected increased chargebacks from non-delivery of goods and services as well as increased failure rates of its sellers due to the COVID-19 outbreak. Additionally, the Company has also incorporated market related data to credit losses for similar historical periods of recessionary economic conditions and uncertainty in developing such estimates and assumptions.

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,	
	2020	2019	2020	2019
Accrued transaction losses, beginning of the period	$ 96,661	$ 36,047	$ 34,771	$ 33,682
Provision for transaction losses	32,770	22,190	112,073	41,998
Charge-offs to accrued transaction losses	(20,370)	(18,607)	(37,783)	(36,050)
Accrued transaction losses, end of the period	$ 109,061	$ 39,630	$ 109,061	$ 39,630

(ii) Square Payroll payable represents amounts received from Square Payroll product customers that will be utilized to settle the customers' employee payroll and related obligations.

NOTE 11 - OTHER CONSOLIDATED BALANCE SHEET COMPONENTS (NON-CURRENT)

Other Non-Current Assets

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

	June 30, 2020	December 31, 2019
Investment in non-marketable equity securities (i)	$ 130,999	$ 110,000
Non-current lease prepayments (ii)	—	45,738
Restricted cash	13,685	12,715
Other	21,765	27,935
Total	$ 166,449	$ 196,388

(i) This balance represents the Company's investments in equity of non-public entities. These investments are measured using the measurement alternative and are therefore carried at cost, less impairment, adjusted for observable price changes. During the quarter ended June 30, 2020, the Company recorded an adjustment to the carrying value, with a gain of $21.0 million being recorded in Other income (expense) in the condensed consolidated statement of operations for observable price changes.

(ii) The non-current lease prepayments as of December 31, 2019, have been reclassified to the operating lease right-of-use assets upon lease commencement.

Other Non-Current Liabilities

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

	June 30, 2020	December 31, 2019
Statutory liabilities (i)	$ 65,000	$ 54,762
Deferred revenue, non-current	6,956	6,227
Other	18,264	33,472
Total	$ 90,220	$ 94,461

[(i)] Statutory liabilities represent loss contingencies that may arise from the Company's interpretation and application of certain guidelines and rules issued by various federal, state, local, and foreign regulatory authorities.

NOTE 12 - INDEBTEDNESS

Revolving Credit Facility

In November 2015, the Company entered into a revolving credit agreement with certain lenders, which provided for a $375 million revolving credit facility maturing in November 2020 (the "2015 Credit Facility"). In May 2020, the Company entered into a new revolving credit agreement with certain lenders, which extinguished the 2015 Credit Facility and provided a $500.0 million senior unsecured revolving credit facility (the "2020 Credit Facility") maturing in May 2023. On May 28, 2020, the Company amended the credit agreement for the 2020 Credit facility to permit the Company's wholly owned subsidiary, Square Capital, LLC ("Square Capital"), to incur indebtedness in an aggregate principal amount of up to $500.0 million pursuant to the Paycheck Protection Program Liquidity Facility ("PPPLF") authorized under the Federal Reserve Act of 1913, as discussed below. The PPPLF permits participants which have originated or purchased PPP loans to borrow from an applicable Federal Reserve Bank in an amount up to 100% of the principal amount of the PPP loans pledged as collateral for such borrowing.

Loans under the 2020 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 the adjusted LIBOR rate plus 1.00%, in each case, plus a margin ranging from 0.25% to 0.75% or (ii) an adjusted LIBOR rate plus a margin ranging from 1.25% to 1.75%. The credit agreement includes provisions allowing the Company to replace or update LIBOR with a replacement rate. The margin is determined based on the Company's total net leverage ratio, as defined in the agreement. The Company is obligated to pay other customary fees for a credit facility of this size and type including an unused commitment fee of 0.15%. To date no funds have been drawn and no letters of credit have been issued under the 2020 Credit Facility. The 2020 Credit Facility has certain restrictions including the amount and type of borrowing arrangements that are permitted. The Company incurred $0.1 million in unused commitment fees for the three and six months ended June 30, 2020 and June 30, 2019, respectively. As of June 30, 2020, the Company was in compliance with all financial covenants associated with the 2020 Credit Facility.

Paycheck Protection Program Liquidity Facility

On June 2, 2020, Square Capital LLC was approved to borrow under the PPPLF with the Federal Reserve Bank of San Francisco, at an annual interest rate of 0.35%. The PPPLF extends credit to eligible financial institutions that have originated or purchased PPP loans. Advances under the PPPLF are non-recourse and are secured by a pledge of PPP loans held by Square Capital up to an aggregate principal amount of $500.0 million. The maturity date of any PPPLF loan will be the maturity date of the PPP loans pledged to secure such PPPLF loan. The maturity date of any PPPLF loan will be accelerated on and to the extent of (i) the date of any loan forgiveness reimbursement by the SBA for any PPP loan securing such PPPLF loan; or (ii) the date of purchase by the SBA from Square Capital of any PPP loan securing such PPPLF loan to realize on the SBA’s guarantee of such PPP loan. The maturity date of all PPPLF Loans shall be accelerated upon the occurrence of certain events of default by Square Capital, including but not limited to the failure to comply with a requirement of the PPPLF agreement or any representation, warranty, or covenant of Square Capital under the PPPLF agreement being inaccurate on or as of the date it is deemed to be made or on any date on which an PPPLF loan remains outstanding. The Company can also at its option prepay the advances in full or in part without penalty. Square Capital also shall prepay PPPLF loans so that the amount of any PPPLF loans outstanding does not exceed the outstanding amount of PPP loans pledged to secure such PPPLF loans. As of June 30, 2020, $447.8 million of PPPLF advances were outstanding.

Convertible Senior Notes due in 2025

On March 5, 2020, the Company issued an aggregate principal amount of $1.0 billion of convertible senior notes (2025 Notes). The 2025 Notes mature on March 1, 2025, unless earlier converted or repurchased, and bear interest at a rate of 0.1250% payable semi-annually on March 1 and September 1 of each year. The 2025 Notes are convertible at an initial conversion rate of 8.2641 shares of the Company's Class A common stock per $1,000 principal amount of 2025 Notes, which is equivalent to an initial conversion price of approximately $121.01 per share of Class A common stock. Holders may convert their 2025 Notes at any time prior to the close of business on the business day immediately preceding December 1, 2024 only under the following circumstances: (1) during any calendar quarter, commencing after the calendar quarter ending on June 30, 2020 (and only during such calendar quarter), if the last reported sale price of the Company’s Class A common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the measurement period) in which the trading price (as defined in the indenture governing the 2025 Notes) per $1,000 principal amount of 2025 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company’s Class A common stock and the conversion rate on each such trading day; (3) if the Company calls any or all of the 2025 Notes for redemption, such 2025 Notes called for redemption may be converted at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events, including certain distributions, the occurrence of a fundamental change (as defined in the indenture governing the 2025 Notes) or a transaction resulting in the Company’s Class A common stock converting into other securities or property or assets. In addition, upon occurrence of the specified corporate events prior to the maturity date, the Company would increase the conversion rate for a holder who elects to convert their notes in connection with such an event in certain circumstances. On or after December 1, 2024, up until the close of business on the second scheduled trading day immediately preceding the maturity date, a holder may convert all or any portion of its 2025 Notes regardless of the foregoing circumstances. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of its Class A common stock, or a combination of cash and shares of its Class A common stock, at the Company’s election. The circumstances required to allow the holders to convert their 2025 Notes were not met during the six months period ended June 30, 2020. The Company may redeem for cash all or any part of the 2025 notes, at its option, on or after March 5, 2023, if the last reported sale price of the Company's Class A common stock has been at least 130% of the conversion price for the 2025 notes then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption at a redemption price equal to 100% of the principal amount of the 2025 notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

In accounting for the issuance of the 2025 Notes, the Company separated the 2025 Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar debt instrument that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was $154.6 million and was determined by deducting the fair value of the liability component from the par value of the 2025 Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. The excess of the principal amount of the liability component over its carrying amount ("debt discount") is amortized to interest expense over the term of the 2025 Notes at an effective interest rate of 3.81% over the contractual terms of the 2025 Notes.

Debt issuance costs related to the 2025 Notes were comprised of discounts and commissions payable to the initial purchasers of $14.3 million and third party offering costs of $0.9 million. The Company allocated the total amount incurred to the liability and equity components of the 2025 Notes based on their relative values. Issuance costs attributable to the liability component were $12.8 million and will be amortized to interest expense using the effective interest method over the contractual term. Issuance costs attributable to the equity component were netted with the equity component in stockholders' equity.

As of June 30, 2020, the if-converted value of the 2025 Notes did not exceed the outstanding principal amount.

Convertible Senior Notes due in 2023

On May 25, 2018, the Company issued an aggregate principal amount of $862.5 million of convertible senior notes (2023 Notes). The 2023 Notes mature on May 15, 2023, unless earlier converted or repurchased, and bear interest at a rate of 0.50% payable semi-annually on May 15 and November 15 of each year. The 2023 Notes are convertible at an initial conversion rate of 12.8456 shares of the Company's Class A common stock per $1,000 principal amount of 2023 Notes, which is equivalent to an initial conversion price of approximately $77.85 per share of Class A common stock. Holders may convert their 2023 Notes at any time prior to the close of business on the business day immediately preceding February 15, 2023 only under the following circumstances: (1) during any calendar quarter (and only during such calendar quarter), if the last reported sale price of the Company's Class A common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the measurement period) in which the trading price (as defined in the indenture governing the 2023 Notes) per $1,000 principal amount of 2023 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's Class A common stock and the conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events, including certain distributions, the occurrence of a fundamental change (as defined in the indenture governing the 2023 Notes) or a transaction resulting in the Company's Class A common stock converting into other securities or property or assets. In addition, following specified corporate events that occur prior to the maturity date, the Company will, in certain circumstances, increase the conversion rate for a holder who elects to convert their notes in connection with such an event. On or after February 15, 2023, up until the close of business on the second scheduled trading day immediately preceding the maturity date, a holder may convert all or any portion of its 2023 Notes regardless of the foregoing circumstances. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of its Class A common stock, or a combination of cash and shares of its Class A common stock, at the Company's election. The Company's current policy is to settle conversions entirely in shares of the Company's Class A common stock. The Company will reevaluate this policy from time to time as conversion notices are received from holders of the 2023 Notes. The circumstances required to allow the holders to convert their 2023 Notes were not met during the six months period ended June 30, 2020.

In accounting for the issuance of the 2023 Notes, the Company separated the 2023 Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar debt instrument that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was $155.3 million and was determined by deducting the fair value of the liability component from the par value of the 2023 Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. The excess of the principal amount of the liability component over its carrying amount ("debt discount") is amortized to interest expense over the term of the 2023 Notes at an effective interest rate of 4.69% over the contractual terms of the 2023 Notes.

Debt issuance costs related to the 2023 Notes were comprised of discounts and commissions payable to the initial purchasers of $6.0 million and third party offering costs of $0.8 million. The Company allocated the total amount incurred to the liability and equity components of the 2023 Notes based on their relative values. Issuance costs attributable to the liability component were $5.6 million and will be amortized to interest expense using the effective interest method over the contractual term. Issuance costs attributable to the equity component were netted with the equity component in stockholders' equity.

As of June 30, 2020, the if-converted value of the 2023 Notes exceeded the outstanding principal amount by $300.2 million.

Convertible Senior Notes due in 2022

On March 6, 2017, the Company issued an aggregate principal amount of $440.0 million of convertible senior notes (2022 Notes). The 2022 Notes mature on March 1, 2022, unless earlier converted or repurchased, and bear interest at a rate of 0.375% payable semi-annually on March 1 and September 1 of each year. The 2022 Notes are convertible at an initial conversion rate of 43.5749 shares of the Company's Class A common stock per $1,000 principal amount of 2022 Notes, which is equivalent to an initial conversion price of approximately $22.95 per share of Class A common stock. Holders may convert their 2022 Notes at any time prior to the close of business on the business day immediately preceding December 1, 2021 only under the following circumstances: (1) during any calendar quarter (and only during such calendar quarter), if the last reported sale price of the Company's Class A common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the measurement period) in which the trading price (as defined in the indenture governing the 2022 Notes) per $1,000 principal amount of 2022 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's Class A common stock and the conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events, including certain distributions, the occurrence of a fundamental change (as defined in the indenture governing the 2022 Notes) or a transaction resulting in the Company's Class A common stock converting into other securities or property or assets. In addition, upon occurrence of the specified corporate events prior to the maturity date, the Company would increase the conversion rate for a holder who elects to convert their notes in connection with such an event in certain circumstances. On or after December 1, 2021, up until the close of business on the second scheduled trading day immediately preceding the maturity date, a holder may convert all or any portion of its 2022 Notes regardless of the foregoing circumstances. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of its Class A common stock, or a combination of cash and shares of its Class A common stock, at the Company's election. The circumstances required to allow the holders to convert their 2022 Notes were met starting January 1, 2018 and continued to be met through June 30, 2020. As of June 30, 2020, certain holders of the 2022 Notes have converted an aggregate principal amount of $253.7 million of their Notes, of which $25.5 million was converted during the quarter ended March 31, 2020. The Company has settled the conversions through a combination of $219.4 million in cash and issuance of 8.4 million shares of the Company's Class A common stock. The conversions during the quarter ended March 31, 2020 were settled entirely in shares of the Company's Class A common stock. The Company currently expects to settle future conversions entirely in shares of the Company's Class A common stock. The Company will reevaluate this policy from time to time as conversion notices are received from holders of the 2022 Notes.

In accounting for the issuance of the 2022 Notes, the Company separated the 2022 Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar debt instrument that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was $86.2 million and was determined by deducting the fair value of the liability component from the par value of the 2022 Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. The debt discount is amortized to interest expense over the term of the 2022 Notes at an effective interest rate of 5.34% over the contractual terms of the 2022 Notes.

Debt issuance costs related to the 2022 Notes were comprised of discounts and commissions payable to the initial purchasers of $11.0 million and third party offering costs of $0.8 million. The Company allocated the total amount incurred to the liability and equity components of the 2022 Notes based on their relative values. Issuance costs attributable to the liability component were $9.4 million and will be amortized to interest expense using the effective interest method over the contractual term. Issuance costs attributable to the equity component were netted with the equity component in stockholders' equity.

The debt component associated with the 2022 Notes that were converted was accounted for as an extinguishment of debt, with the Company recording loss on extinguishment of $6.0 million, of which $1.0 million was recorded during the three and six months ended June 30, 2020, as the difference between the estimated fair value and the carrying value of such 2022 Notes. The equity component associated with the 2022 Notes that were converted was accounted for as a reacquisition of equity upon the conversion of such 2022 Notes.

As of June 30, 2020, the if-converted value of the 2022 Notes exceeded the outstanding principal amount by $665.4 million.

The net carrying amount of the Notes were as follows (in thousands):

	Principal outstanding	Unamortized debt discount	Unamortized debt issuance costs	Net carrying value
June 30, 2020				
2025 Notes	$ 1,000,000	$ (144,633)	$ (12,577)	$ 842,790
2023 Notes	862,500	(95,428)	(2,951)	764,121
2022 Notes	186,251	(13,261)	(1,473)	171,517
Total	$ 2,048,751	$ (253,322)	$ (17,001)	$ 1,778,428
December 31, 2019				
2023 Notes	$ 862,500	$ (110,518)	$ (3,418)	$ 748,564
2022 Notes	211,726	(19,312)	(2,146)	190,268
Total	$ 1,074,226	$ (129,830)	$ (5,564)	$ 938,832

The net carrying amount of the equity component of the Notes were as follows (in thousands):

	Amount allocated to conversion option	Less: allocated issuance costs	Equity component, net
June 30, 2020			
2025 Notes	$ 154,600	$ (2,342)	$ 152,258
2023 Notes	155,250	(1,231)	154,019
2022 Notes	36,490	(974)	35,516
Total	$ 346,340	$ (4,547)	$ 341,793
December 31, 2019			
2023 Notes	$ 155,250	$ (1,231)	$ 154,019
2022 Notes	41,481	(1,108)	40,373
Total	$ 196,731	$ (2,339)	$ 194,392

The Company recognized interest expense on the Notes as follows (in thousands, except for percentages):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Contractual interest expense	$ 1,565	$ 1,277	$ 2,938	$ 2,554
Amortization of debt discount and issuance costs	17,580	9,725	30,108	19,333
Total	$ 19,145	$ 11,002	$ 33,046	$ 21,887

The effective interest rate of the liability component is 3.81%, 4.69%, and 5.34% for the 2025 Notes, 2023 Notes, and 2022 Notes, respectively.

Convertible Note Hedge and Warrant Transactions

In connection with the offering of the 2025 Notes, the Company entered into convertible note hedge transactions (2025 convertible note hedges) with certain financial institution counterparties (2020 Counterparties) whereby the Company has the option to purchase a total of approximately 8.26 million shares of its Class A common stock at a price of approximately $121.01 per share. The total cost of the 2025 convertible note hedge transactions was $149.2 million. In addition, the Company sold warrants (2025 warrants) to the 2020 Counterparties whereby the 2020 Counterparties have the option to purchase a total of 8.26 million shares of the Company’s Class A common stock at a price of approximately $161.34 per share. The Company received $99.5 million in cash proceeds from the sale of the 2025 warrants. Taken together, the purchase of the 2025 convertible note hedges and sale of the 2025 warrants are intended to reduce dilution from the conversion of the 2025 Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of the converted 2025 Notes, as the case may be, and to effectively increase the overall conversion price from approximately $121.01 per share to approximately $161.34 per share. As these instruments are considered indexed to the Company's own stock and are considered equity classified, the 2025 convertible note hedges and 2025 warrants are recorded in stockholders’ equity, are not accounted for as derivatives and are not remeasured each reporting period. The net costs incurred in connection with the 2025 convertible note hedge and 2025 warrant transactions were recorded as a reduction to additional paid-in capital on the condensed consolidated balance sheets.

In connection with the offering of the 2023 Notes, the Company entered into convertible note hedge transactions (2023 convertible note hedges) with certain financial institution counterparties (2018 Counterparties) whereby the Company has the option to purchase a total of approximately 11.1 million shares of its Class A common stock at a price of approximately $77.85 per share. The total cost of the 2023 convertible note hedge transactions was $172.6 million. In addition, the Company sold warrants (2023 warrants) to the 2018 Counterparties whereby the 2018 Counterparties have the option to purchase a total of 11.1 million shares of the Company’s Class A common stock at a price of approximately $109.26 per share. The Company received $112.1 million in cash proceeds from the sale of the 2023 warrants. Taken together, the purchase of the 2023 convertible note hedges and sale of the 2023 warrants are intended to reduce dilution from the conversion of the 2023 Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of the converted 2023 Notes, as the case may be, and to effectively increase the overall conversion price from approximately $77.85 per share to approximately $109.26 per share. As these instruments are considered indexed to the Company's own stock and are considered equity classified, the 2023 convertible note hedges and 2023 warrants are recorded in stockholders’ equity, are not accounted for as derivatives and are not remeasured each reporting period. The net costs incurred in connection with the 2023 convertible note hedge and 2023 warrant transactions were recorded as a reduction to additional paid-in capital on the condensed consolidated balance sheets.

In connection with the offering of the 2022 Notes, the Company entered into convertible note hedge transactions (2022 convertible note hedges) with certain financial institution counterparties (2017 Counterparties) whereby the Company has the option to purchase a total of approximately 19.2 million shares of its Class A common stock at a price of approximately $22.95 per share. The total cost of the 2022 convertible note hedge transactions was $92.1 million. In addition, the Company sold warrants (2022 warrants) to the 2017 Counterparties whereby the 2017 Counterparties have the option to purchase a total of 19.2 million shares of the Company’s Class A common stock at a price of approximately $31.18 per share. The Company received $57.2 million in cash proceeds from the sale of the 2022 warrants. Taken together, the purchase of the 2022 convertible note hedges and sale of the 2022 warrants are intended to reduce dilution from the conversion of the 2022 Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of the converted 2022 Notes, as the case may be, and to effectively increase the overall conversion price from approximately $22.95 per share to approximately $31.18 per share. As these instruments are considered indexed to the Company's own stock and are considered equity classified, the 2022 convertible note hedges and 2022 warrants are recorded in stockholders’ equity, are not accounted for as derivatives and are not remeasured each reporting period. The net costs incurred in connection with the 2022 convertible note hedge and 2022 warrant transactions were recorded as a reduction to additional paid-in capital on the condensed consolidated balance sheets. The Company has exercised a pro-rata portion of the 2022 convertible note hedges to offset the shares of the Company's Class A common stock issued to settle the conversion of the 2022 Notes discussed above. The 2022 convertible note hedges were net share settled, and as of June 30, 2020, the Company has received 7.9 million shares of the Company's Class A common stock from the 2017 Counterparties, of which 0.7 million was received in the quarter ended June 30, 2020.

NOTE 13 - INCOME TAXES

The Company recorded an income tax benefit of $0.8 million and $0.2 million for the three and six months ended June 30, 2020, respectively, compared to an income tax benefit of $0.5 million and 0.3 million for the three and six months ended June 30, 2019, respectively. The income tax benefit recorded for the three and six months ended June 30, 2020 is primarily due to foreign income tax expense offset by excess stock based compensation tax deductions.

The Company’s effective tax rate is 6.1% and 0.2% for the three and six months ended June 30, 2020, respectively, compared to an effective tax rate of 6.6% and 0.8% for the three and six months ended June 30, 2019, respectively. The difference between the effective tax rate and the U.S. federal statutory tax rate of 21% for the three and six months ended June 30, 2020 and June 30, 2019 primarily relates to changes in the valuation allowance for tax losses in the U.S. and certain foreign jurisdictions for which no benefit can be taken.

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, 2020, 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, 2020 and June 30, 2019, is calculated on a jurisdictional basis. The Company estimated the foreign income tax provision using the effective income tax rate expected to be applicable for the full year.

The Company also considered recent tax law changes in response to the COVID-19 pandemic, including the Coronavirus Aid, Relief, and Economic Security (CARES) Act that was enacted in the U.S. on March 27, 2020. The tax benefits and other changes provided under the CARES Act do not materially impact the Company’s income tax provision, and does not change the Company’s evaluation of the need for a valuation allowance against deferred tax assets in the U.S. or expectations on the permanent reinvestment of undistributed earnings for certain foreign subsidiaries.

NOTE 14 - STOCKHOLDERS’ EQUITY

Common Stock

The Company has authorized the issuance of Class A common stock and Class B common stock. Holders of shares of Class A common stock are entitled to one vote per share, while holders of shares of Class B common stock are entitled to ten votes per share. Shares of the Company's Class B common stock are convertible into an equivalent number of shares of its Class A common stock and generally convert into shares of its Class A common stock upon transfer. The holders of Class A common stock and Class B common stock have no preemptive or other subscription rights and there are no redemption or sinking fund provisions with respect to such shares. 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, 2020, 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, 2020, there were 370,102,185 shares of Class A common stock and 72,287,165 shares of Class B common stock outstanding. Options and awards granted following the Company's initial public offering are related to underlying Class A common stock.

Warrants

In conjunction with the 2025 Notes offering, the Company sold the 2025 warrants whereby the 2020 Counterparties have the option to purchase a total of approximately 8.26 million shares of the Company’s Class A common stock at a price of $161.34 per share. None of the 2025 warrants were exercised as of June 30, 2020 and expire on June 1, 2025.

In conjunction with the 2023 Notes offering, the Company sold the 2023 warrants whereby the 2018 Counterparties have the option to purchase a total of approximately 11.1 million shares of the Company's Class A common stock at a price of $109.26 per share. None of the 2023 warrants were exercised as of June 30, 2020 and expire on August 15, 2023.

In conjunction with the 2022 Notes offering, the Company sold the 2022 warrants whereby the 2017 Counterparties have the option to purchase a total of approximately 19.2 million shares of the Company's Class A common stock at a price of $31.18 per share. None of the 2022 warrants were exercised as of June 30, 2020 and expire on June 1, 2022.

Conversion of 2022 Notes

In connection with the conversion of certain of the 2022 Notes, the Company issued 1.1 million shares of Class A common stock in the six months ended June 30, 2020.

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. Since November 17, 2015, no additional awards have been nor will be granted in the future under the 2009 Plan.

Under the 2015 Plan, shares of the Company's Class A common stock are reserved for the issuance of incentive and nonstatutory stock options (ISOs and NSOs, respectively), restricted stock awards (RSAs), restricted stock units (RSUs), performance shares, and stock bonuses to qualified employees, directors, and consultants. The awards must 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 administrator of the Plan. The administrator consists of the Board of Directors who then assigns the responsibilities to the Compensation Committee. As of June 30, 2020, the total number of shares subject to stock options, RSAs and RSUs outstanding under the 2015 Plan was 24,530,812, and 97,704,869 shares were available for future issuance. As of June 30, 2020, the total number of shares subject to stock options, RSAs and RSUs outstanding under the 2009 Plan was 12,775,030.

A summary of stock option activity for the six months ended June 30, 2020 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 at December 31, 2019	23,619,804	$ 12.66	4.89	$ 1,191,746
Granted	1,502,356	57.40		
Exercised	(5,978,089)	9.31		
Forfeited	(46,231)	71.99		
Balance at June 30, 2020	19,097,840	$ 17.07	4.87	$ 1,678,054
Options exercisable as of June 30, 2020	16,532,301	$ 10.84	4.21	$ 1,555,696

Restricted Stock Activity

Activity related to RSAs and RSUs during the six months ended June 30, 2020 is set forth below:

	Number of shares	Weighted Average Grant Date Fair Value
Unvested as of December 31, 2019	13,917,461	$ 49.90
Granted	8,698,265	61.51
Vested	(3,690,105)	38.01
Forfeited	(717,619)	51.04
Unvested as of June 30, 2020	18,208,002	$ 57.82

Share-Based Compensation

The fair value of stock options and employee stock purchase plan rights are estimated on the date of grant using the Black-Scholes-Merton option valuation model. The fair value of RSAs and RSUs is determined by the closing price of the Company's common stock on each grant date.

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,	
	2020	2019	2020	2019
Cost of revenue	$ 95	$ 29	$ 171	$ 50
Product development	69,565	56,144	126,965	98,793
Sales and marketing	8,884	7,833	15,291	14,035
General and administrative	17,636	15,460	31,056	27,676
Total	$ 96,180	$ 79,466	$ 173,483	$ 140,554

The Company recorded $4.1 million and $8.8 million of share-based compensation expense related to the Company's 2015 Employee Stock Purchase Plan during the three and six months ended June 30, 2020, respectively, compared to $4.7 million and $9.0 million during the three and six months ended June 30, 2019, respectively, which are included in the table above.

The Company capitalized $3.5 million and $5.8 million of share-based compensation expense related to capitalized software costs during the three and six months ended June 30, 2020, respectively, compared to $1.9 million and $3.7 million during the three and six months ended June 30, 2019, respectively.

As of June 30, 2020, there was $1.1 billion of total unrecognized compensation cost related to outstanding stock options and restricted stock awards that are expected to be recognized over a weighted-average period of 3.0 years.

NOTE 15 - NET 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 net loss per share is the same as basic net loss per share because the effects of potentially dilutive items were anti-dilutive.

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,	
	2020	2019	2020	2019
Numerator:				
Net loss	$ (11,478)	$ (6,740)	$ (117,369)	$ (44,891)
Denominator:				
Weighted-average shares used to compute basic and diluted net loss per share	440,117	423,305	437,529	421,297
Net loss per share:				
Basic	$ (0.03)	$ (0.02)	$ (0.27)	$ (0.11)
Diluted	$ (0.03)	$ (0.02)	$ (0.27)	$ (0.11)

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 Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Stock options and restricted stock units	37,277	46,686	36,155	47,256
Common stock warrants	38,516	30,252	35,565	30,252
Convertible senior notes	27,459	20,305	24,923	20,305
Unvested shares	698	800	719	686
Employee stock purchase plan	179	169	198	195
Total anti-dilutive securities	104,129	98,212	97,560	98,694

NOTE 16 - RELATED PARTY TRANSACTIONS

In July 2019, the Company entered into a lease agreement to lease certain office space located in St. Louis, Missouri, from an affiliate of one of the Company's co-founders and current member of its board and directors, Mr. Jim McKelvey, under an operating lease agreement as discussed in Note 17, *Commitments and Contingencies*. The lease commencement date varies by floor beginning in May 2020 through October 2020. The term of the agreement is 15.5 years with total future minimum lease payments over the term of approximately $42.7 million. As of June 30, 2020, the Company had recorded right-of-use assets of $14.8 million and associated lease liabilities of $21.3 million related to this lease arrangement.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

Operating and Finance Leases

The Company’s operating leases are primarily comprised of office facilities, with the most significant leases relating to corporate headquarters in San Francisco, and offices in Oakland, New York and St. Louis. The Company's leases have remaining lease terms of 1 to 12 years, some of which include options to extend for 5 year terms, or include options to terminate the leases within 1 year. None of the options to extend the leases have been included in the measurement of the right-of-use asset or the associated lease liability. The Company elected to apply the short-term lease measurement and recognition exemption to its leases where applicable. Generally, operating lease right-of-use assets and operating lease liabilities are recognized at the present value of the future lease payments, generally for the base non-cancellable lease term on the lease commencement date of each lease. The interest rate used to determine the present value of the future lease payments is the Company's incremental borrowing rate because the interest rate implicit in most of the Company's leases is not readily determinable. The Company's incremental borrowing rate is estimated to approximate the interest rate that the Company would pay to borrow on a collateralized basis with similar terms and payments as the lease, and in economic environments where the leased asset is located. Operating lease right-of-use assets also include any prepaid lease payments and lease incentives. The Company's lease agreements generally contain lease and non-lease components. Non-lease components, which primarily include payments for maintenance and utilities, are combined with lease payments and accounted for as a single lease component. The Company includes the fixed non-lease components in the determination of the right-of-use assets and operating lease liabilities. The Company records the amortization of the right-of-use asset and the accretion of lease liability as a component of rent expense in the consolidated statement of operations.

In December 2018, the Company entered into a lease arrangement for 355,762 square feet of office space in Oakland, California for a term of 12 years with options to extend the lease term for two 5 year terms. The lease commencement date was January 15, 2020. In July 2019, the Company entered into a lease arrangement for 226,158 square feet of office space in St Louis, Missouri, with an affiliate of one of the Company’s co-founders, Mr. Jim McKelvey, who is also a Company stockholder and a member of its board of directors, for a term of 15.5 years with options to extend the lease term for two 5 year terms. The Company also has an option to terminate the lease for up to 50% of the leased space any time between January 1, 2024 and December 31, 2026, as well as an option to terminate the lease for the entire property on January 1, 2034. Termination penalties specified in the lease agreement will apply if the Company exercises any of the options to terminate the lease. The lease commencement date varies by floor beginning in May 2020 with total future minimum lease payments over the term of approximately $42.7 million.

Additionally, the Company has finance leases for data center equipment, with remaining lease terms of approximately 0.5 years.

The components of lease expense for the periods presented were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Fixed operating lease costs	$ 17,218	$ 7,487	$ 32,343	$ 14,177
Variable operating lease costs	3,287	1,536	9,011	2,173
Short term lease costs	1,921	377	3,777	818
Sublease income	(2,179)	—	(3,616)	—
Finance lease costs				
Amortization of finance right-of-use assets	869	1,284	1,923	2,577
Total lease costs	$ 21,116	$ 10,684	$ 43,438	$ 19,745

Other information related to leases were as follows:

	June 30, 2020
Weighted Average Remaining Lease Term:	
Operating leases	9.1 years
Finance leases	0.5 years
Weighted Average Discount Rate:	
Operating leases	4 %
Finance leases	— %

Cash flows related to leases were as follows (in thousands):

	Six Months Ended June 30,	
	2020	2019
Cash flows from operating activities:		
Payments for operating lease liabilities	$ (19,137)	$ (16,067)
Cash flows from financing activities:		
Principal payments on finance lease obligation	$ (1,923)	$ (2,568)
Supplemental Cash Flow Data:		
Right-of-use assets obtained in exchange for operating lease obligations	$ 304,132	$ 21,905

Future minimum lease payments under non-cancelable operating leases (with initial lease terms in excess of one year) and future minimum finance lease payments as of June 30, 2020 are as follows (in thousands):

	Finance	Operating
Year:		
Remainder of 2020	$ 522	$ 29,887
2021	—	70,520
2022	—	71,259
2023	—	65,724
2024	—	46,023
Thereafter	—	273,368
Total	$ 522	$ 556,781
Less: amount representing interest	—	86,469
Less: leases executed but not yet commenced	—	25,257
Less: lease incentives	—	16,627
Total	$ 522	$ 428,428

The current portion of the finance lease liability is included within other current liabilities while the non-current portion is included within other non-current liabilities on the condensed consolidated balance sheets. The associated finance lease assets are included in property and equipment, net on the condensed consolidated balance sheets.

Litigation

The Company is currently subject to, and may in the future be involved in, various litigation matters, legal claims, and investigations.

In July 2020, the City and County of San Francisco approved a final settlement agreement between the City and the Company related to the City's Gross Receipts Tax and Payroll Expense Tax. The settlement followed negotiations over assessments of additional taxes issued by the Treasurer & Tax Collector of the City and County of San Francisco related to the classification of the Company's primary business activity and the associated taxation basis. The settlement resolved certain past taxes payable and the future taxation basis for the Company. The Settlement was not material to the consolidated financial statements as of, and for the period ended June 30, 2020.

Other contingencies

On June 15, 2020, the Texas Comptroller's Office (the "Comptroller") informed the Company that it had completed its sales and use tax audit for the period from January 1, 2015 through April 30, 2018, and that it would issue a written tax assessment to the Company seeking $38 million, including interest and penalties for this tax audit period. The Comptroller indicated that it believes the services that the Company has deemed to be nontaxable should be subject to sales tax. The Company believes the Comptroller's position is without merit. Should the Company not prevail, the Company could be obligated to pay additional taxes together with associated penalties and interest for the audited tax period, as well as additional taxes for periods subsequent to the tax audit period, including penalties and interest, that could be material.

We are under examination, or may be subject to tax examination, by several tax authorities. These examinations, including the matter discussed above, may lead to proposed adjustments to our taxes or net operating losses with respect to years under examination, as well as subsequent periods. We regularly assess the likelihood of adverse outcomes resulting from tax examinations to determine the adequacy of our provision for direct and indirect taxes. We continue to monitor the progress of ongoing discussions with tax authorities and the effect, if any, on our provision for direct and indirect taxes.

We believe that an adequate provision has been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in our tax audits are resolved in a manner not consistent with the Company's expectations, we could be required to adjust our provision for direct and indirect taxes in the period such resolution occurs.

From time to time, the Company is also subject to various legal matters and disputes arising in the ordinary course of business. The Company cannot at this time fairly estimate a reasonable range of exposure, if any, of the potential liability with respect to these other matters. Although occasional adverse decisions or settlements may occur, the Company does not believe that the final disposition of any of these matters will have a material adverse effect on its results of operations, financial position, or liquidity. The Company cannot give any assurance regarding the ultimate outcome of these other matters, and their resolution could be material to the Company's operating results for any particular period.

NOTE 18 - SEGMENT AND GEOGRAPHICAL INFORMATION

Effective June 30, 2020, the Company changed its operating segments to reflect the manner in which the CODM reviews and assesses performance. Accordingly, the Company has two reportable segments, which are Seller and Cash App. Disclosures regarding the Company's reportable segments for prior periods have been adjusted to conform to the current period presentation. Seller and Cash App are defined as follows:

- Seller includes managed payment services, software solutions, hardware, and financial services offered to sellers, excluding those that involve Cash App.

- Cash App includes the financial tools available to individuals within the mobile Cash App, including peer to peer (P2P) payments, bitcoin and stock investments. Cash App also includes Cash Card which is linked to customer stored balances that customers can use to pay for purchases or withdraw funds from an ATM.

The primary financial measures used by the CODM to evaluate performance and allocate resources are net revenue and gross profit. The CODM does not evaluate performance or allocate resources based on segment asset data, and therefore such information is not included.

Information on the reportable segments revenue and segment operating profit are as follows (in thousands):

	Three Months Ended June 30, 2020			Six Months Ended June 30, 2020		
	Cash App	Seller	Total	Cash App	Seller	Total
Revenue						
Transaction-based revenue	$ 53,657	$ 628,915	$ 682,572	$ 81,476	$ 1,359,197	$ 1,440,673
Subscription and services-based revenue	271,156	75,119	346,275	464,881	177,629	642,510
Hardware revenue	—	19,322	19,322	—	39,997	39,997
Bitcoin revenue	875,456	—	875,456	1,181,554	—	1,181,554
Segment revenue	1,200,269	723,356	1,923,625	1,727,911	1,576,823	3,304,734
Segment gross profit	$ 281,063	$ 315,700	$ 596,763	$ 463,795	$ 671,469	$ 1,135,264

	Three Months Ended June 30, 2019			Six Months Ended June 30, 2019		
	Cash App	Seller	Total	Cash App	Seller	Total
Revenue						
Transaction-based revenue	$ 16,966	$ 758,544	$ 775,510	$ 32,246	$ 1,400,026	$ 1,432,272
Subscription and services-based revenue	118,442	89,552	207,994	215,036	165,284	380,320
Hardware revenue	—	22,260	22,260	—	40,472	40,472
Bitcoin revenue	125,085	—	125,085	190,613	—	190,613
Segment revenue	260,493	870,356	1,130,849	437,895	1,605,782	2,043,677
Segment gross profit	$ 105,341	$ 347,208	$ 452,549	$ 190,152	$ 647,711	$ 837,863

In the table above, amounts exclude the Caviar business, a food ordering and delivery platform business, which was sold in the year ended December 31, 2019. A reconciliation of total segment revenues, as indicated above, to the Company's consolidated revenues is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Total segment revenue	$ 1,923,625	$ 1,130,849	$ 3,304,734	$ 2,043,677
Caviar revenue	—	43,389	—	89,920
Total net revenue	$ 1,923,625	$ 1,174,238	$ 3,304,734	$ 2,133,597

A reconciliation of total segment gross profit to the Company's income before applicable income taxes is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Total segment gross profit	$ 596,763	$ 452,549	$ 1,135,264	$ 837,863
Add: Caviar gross profit	—	13,296	—	24,736
Total reported operating gross profit	596,763	465,845	1,135,264	862,599
Less: Product development	206,825	174,201	401,811	328,551
Less: Sales and marketing	238,096	156,421	432,631	290,134
Less: General and administrative	136,386	100,508	265,881	202,106
Less: Transaction and loan losses	37,603	34,264	146,486	62,105
Less: Amortization of acquired customer assets	905	1,294	1,795	2,588
Less: Interest expense, net	14,769	5,143	23,975	9,824
Less: Other expense (income), net	(25,591)	1,230	(19,729)	12,529
Loss before applicable income taxes	$ (12,230)	$ (7,216)	$ (117,586)	$ (45,238)

Revenue

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenue				
United States	$ 1,865,985	$ 1,119,039	$ 3,179,571	$ 2,033,695
International	57,640	55,199	125,163	99,902
Total net revenue	$ 1,923,625	$ 1,174,238	$ 3,304,734	$ 2,133,597

No individual country from the international markets contributed in excess of 10% of total revenue for the three and six months ended June 30, 2020 and June 30, 2019.

Long-Lived Assets

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

	June 30, 2020	December 31, 2019
Long-lived assets		
United States	$ 965,545	$ 586,702
International	46,523	11,064
Total long-lived assets	$ 1,012,068	$ 597,766

Assets by reportable segment were not included, as this information is not reviewed by the CODM to make operating decisions or allocate resources, and is reviewed on a consolidated basis.

NOTE 19 - SUPPLEMENTAL CASH FLOW INFORMATION

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

	Six Months Ended June 30,	
	2020	2019
Analysis of cash, cash equivalents, and restricted cash		
Cash and cash equivalents	$ 1,972,762	$ 617,282
Short-term restricted cash	19,761	31,148
Long-term restricted cash	13,685	14,433
Cash, cash equivalents, and restricted cash	$ 2,006,208	$ 662,863

	Six Months Ended June 30,	
	2020	2019
Supplemental Cash Flow Data:		
Cash paid for interest	$ 2,553	$ 2,836
Cash paid for income taxes	3,156	1,717
Supplemental disclosures of non-cash investing and financing activities:		
Right-of-use assets obtained in exchange for operating lease obligations	304,132	21,905
Change in purchases of property and equipment in accounts payable and accrued expenses	8,010	14,047
Unpaid business combination purchase price	7,439	8,411
Fair value of common stock issued and issuable in future related to business combination	(35,318)	—
Recovery of common stock in connection with indemnification settlement agreement	—	789
Fair value of common stock issued to settle the conversion of senior notes, due 2022	(77,614)	—

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, as well as our Annual report on Form 10-K. 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 businesses (sellers) to accept card payments, an important capability that was previously inaccessible to many businesses. However, sellers need many innovative solutions to thrive, and we have expanded to provide them additional products and services and to give them access to a cohesive ecosystem of tools to help them manage and grow their businesses. Similarly, with Cash App, we have built a parallel ecosystem of financial services to help individuals manage their money.

Our seller ecosystem is a cohesive commerce ecosystem that helps sellers start, run and grow their businesses, and consists of over 30 distinct software, hardware, and financial services products. We monetize these products through a combination of transaction, subscription, and service fees. Our suite of cloud-based software solutions are integrated to create a seamless experience and enable a holistic view of sales, customers, employees, and locations. With our offering, a seller can accept payments in person via magnetic stripe (a swipe), EMV (Europay, MasterCard, and Visa) (a dip), or NFC (Near Field Communication) (a tap); or online via Square Invoices, Square Virtual Terminal, or the seller’s website. We also provide hardware to facilitate commerce for sellers, which includes magstripe readers, contactless and chip readers, Square Stand, Square Register, Square Terminal, and third-party peripherals. Square Card, a business prepaid card, enables sellers to spend the balance they have stored with Square. Sellers can also deposit funds into their Square stored balance so they can manage all of their business expenses in one place. Sellers also gain access to business loans through Square Capital based on the seller's payment processing history. We have grown rapidly to serve millions of sellers that represent a diverse set of industries (including services, food-related business, and retail businesses) and sizes, ranging from a single vendor at a farmers’ market to multi-location businesses. Square sellers also span geographies, including the United States, Canada, Japan, Australia, and the United Kingdom.

Our Cash App ecosystem provides financial tools for individuals to store, send, receive, spend and invest money. With Cash App, customers can fund their account with a bank account or debit card, send and receive P2P (peer-to-peer) payments, and receive direct deposit payments. Customers can make purchases with their Cash Card, a Visa prepaid card that is linked to the balance stored in Cash App, or withdraw funds from an ATM. With Cash Boost, customers receive instant discounts when they make Cash Card purchases at designated merchants. Customers can also use their stored funds to buy and sell bitcoin and equity investments within Cash App.

Effective June 30, 2020, the Company changed from one reportable segment to two reportable segments to reflect the way management and its chief operating decision maker (“CODM”) review and assess performance of the business. Our two reportable segments are Seller and Cash App. Seller includes managed payment services, software solutions, hardware and financial services products offered to sellers, while Cash App includes financial tools available to individuals such as P2P (peer-to-peer) payments, Cash Card transactions, bitcoin and stock investing. The primary financial measures used by the CODM to evaluate performance and allocate resources are revenue and gross profit.

In April 2020, we were licensed to participate in the Paycheck Protection Program (“PPP”) administered by the Small Business Administration (“SBA”) that was enacted in March 2020 under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") in response to the COVID-19 pandemic. The PPP is intended to provide relief to eligible businesses impacted by COVID-19, and to incentivize businesses to keep their workers on the payroll. As of June 30, 2020, we facilitated the issuance of $873.4 million in loans to our customers under the PPP through an external bank partner, of which we sold $399.0 million to an investor. These loans are guaranteed by the U.S. government. Additionally, the loans are eligible for forgiveness if the borrowers meet certain criteria.

On June 2, 2020, we entered into the Paycheck Protection Program Liquidity Facility ("PPPLF") agreement with the Federal Reserve Bank of San Francisco to secure additional credit in an aggregate principal amount of up to $500.0 million. The program was established by the Federal Reserve to supplement the SBA's PPP to support the economy in response to the COVID-19 crisis. The facility is intended to bolster the effectiveness of the PPP and provide liquidity to credit markets, helping to stabilize financial institutions supporting COVID-19 relief efforts. Borrowings under the facility accrue interest at a rate of 0.35% and advances must be collateralized with loans originated under the PPP. The maturity date of any PPPLF advance will be the maturity date of the PPP loan pledged to secure the advance, and will be accelerated upon the occurrence of certain events of default. The advances under this facility are also repayable if the associated PPP loans are forgiven, repaid by the customer, or settled by the government guarantee. As of June 30, 2020, $447.8 million of PPPLF advances were outstanding and collateralized by the same value of the PPP loans.

On March 5, 2020, we issued $1.0 billion in aggregate principal amount of convertible senior notes (2025 Notes) that mature on March 1, 2025, unless earlier converted or repurchased pursuant to their terms, and bear interest at a rate of 0.1250% payable semi-annually on March 1 and September 1 of each year. We intend to use the net proceeds for general corporate purposes, which may include capital expenditures, investments, working capital, and potential acquisitions and strategic transactions. From time to time, we evaluate potential strategic transactions and acquisitions of businesses, technologies, products or talent.

Impact of COVID-19 on Current Trends and Outlook

In March 2020, the World Health Organization declared the COVID-19 outbreak (COVID-19) a global pandemic. We operate in locations that have been impacted by COVID-19, and the pandemic has impacted and could further impact our operations and the operations of our customers as a result of quarantines, various local, state and federal government public health orders, facility and business closures, and travel and logistics restrictions. Conditions may improve or worsen further as governments and businesses continue to take actions to respond to the risks of the COVID-19 pandemic. While the COVID-19 pandemic continues to cause uncertainty in the global economy and restrictive measures by governments and businesses remain in place, we expect our business and results of operations to be materially and adversely affected.

Beginning in the middle of March, the outbreak of COVID-19 led to adverse impacts on the U.S. and global economies, bringing uncertainty to our operations and customer demand. Various local governments issued orders requiring the closure of non-essential businesses and to curtail all unnecessary travel, and requiring individuals to comply with various shelter-in-place and social distancing orders. Certain of our customers in those areas recorded a significant decline in sales and thus, we experienced a slowdown in revenues during the month of March 2020, which continued into the second quarter of 2020. We have experienced some improvements as some of these shelter in place orders were relaxed, but as new outbreaks arise and new measures to mitigate such outbreaks are imposed, we may experience further slowdowns in future revenues.

Our customers are exposed to and face a variety of uncertainties that have and could continue to negatively impact their continued use of our products and services, their ability to repay outstanding amounts, or even their ability to continue in business. As a result, we may experience reduced revenues in the future and we may incur increased charges related to transaction and loan losses if these conditions continue into future periods. We have revised our estimates and assumptions to reflect such increases in transaction and loan losses in our financial statements. We also expect reduced operating cash inflows from our business operations.

Additionally, we have evaluated the potential impact of the COVID-19 outbreak on our financial statements, including, but not limited to, the impairment of goodwill and intangible assets, impairment of long-lived assets including operating lease right-of-use assets, property and equipment, valuation of loans held for sale, as well as determination of accrued transaction losses. We have concluded that our goodwill and other long lived assets are not impaired. Where applicable, we have incorporated judgments and estimates of the expected impact of COVID-19 in the preparation of the financial statements based on information currently available. These judgments and estimates may change, as new events develop and additional information is obtained, and are recognized in the consolidated financial statements as soon as they become known.

We also have taken steps to assist our customers that we believe will be in the best interests of our sellers in the long term, including refunding software subscription fees to sellers during the months of March and April 2020. Additionally, we have introduced options for sellers to temporarily suspend subscriptions based on their circumstances. As mentioned above, as of June 30, 2020, we facilitated approximately 80,000 PPP loans totaling $873.4 million to sellers through a bank partner, with the average loan size being less than $11,000.

We continue to actively monitor the situation and may take further actions that alter our operations and business practices as may be required by federal, state or local authorities or that we determine are in the best interests of our partners, customers, suppliers, vendors, employees and shareholders. While the disruption is currently expected to be temporary, the extent to which the COVID-19 outbreak will further impact the Company's financial results will depend on future developments, which are unknown and cannot be predicted, including the duration and ultimate scope of the pandemic, advances in testing, treatment and prevention, as well as actions taken by governments and businesses.

Results of Operations

Revenue (in thousands, except for percentages)

	Three Months Ended June 30,				Six Months Ended June 30,			
	2020	2019	$ Change	% Change	2020	2019	$ Change	% Change
Transaction-based revenue	$ 682,572	$ 775,510	$ (92,938)	(12) %	$ 1,440,673	$ 1,432,272	$ 8,401	1 %
Subscription and services-based revenue	346,275	251,383	94,892	38 %	$ 642,510	$ 470,240	$ 172,270	37 %
Hardware revenue	19,322	22,260	(2,938)	(13) %	39,997	40,472	$ (475)	(1) %
Bitcoin revenue	875,456	125,085	750,371	600 %	$ 1,181,554	$ 190,613	$ 990,941	520 %
Total net revenue	$ 1,923,625	$ 1,174,238	$ 749,387	64 %	$ 3,304,734	$ 2,133,597	$ 1,171,137	55 %

Total net revenue for the three and six months ended June 30, 2020 increased by $749.4 million or 64% and $1,171.1 million or 55%, respectively, compared to the three and six months ended June 30, 2019.

Transaction-based revenue for the six months ended June 30, 2020 increased $8.4 million or 1%, compared to the six months ended June 30, 2019. The slight increase was primarily attributable to the following events and factors:

- In January and February of 2020, we benefited from the growth in payment volume processed by existing sellers, in addition to meaningful contributions from new sellers. GPV generated by our Seller business increased by 29% compared to the same period in the prior year, which included a benefit from the impact of the leap year;

- In the second half of March through mid-April, 2020, as a result of the COVID-19 outbreak and subsequent shelter in place restrictions, we experienced a significant slowdown in transaction-based revenue, with GPV generated by our Seller business decreasing compared to the prior year;

- Beginning in mid-April 2020, we started to experience improving trends in GPV generated by our Seller business, as some states started to relax shelter-in place measures, sellers adapted their businesses to contactless commerce, new sellers joined Square and various government assistance programs led to an increase in consumer spending;

- Additionally, during the second quarter of 2020, we experienced positive growth of GPV from card-not-present transactions as sellers shifted their businesses to adapt to the COVID-19 outbreak.

Overall, while GPV for the six months ended June 30, 2020 was lower than the comparable period in 2019 by 2%, the revenue generated increased by 1%. The increase in transaction-based revenue, while GPV decreased, was driven by growth in higher-priced card-not-present transactions as sellers shifted their businesses to adapt to the COVID-19 outbreak and the impact from our November 2019 card-present price change. Since the end of the second quarter of 2020, changes to shelter-in-place restrictions, the timing of re-openings, impact of various government stimulus assistance and changes in consumer behavior had varying impacts on the GPV growth in certain regions, and are expected to continue to impact our revenues in the future.

Transaction-based revenue for the three months ended June 30, 2020 decreased by $92.9 million or 12%, compared to the three months ended June 30, 2019. The decrease was primarily attributable to the decline in GPV processed which decreased by 15%, offset by a higher percentage of card-not-present transactions which earn higher fees.

Subscription and services-based revenue for the three and six months ended June 30, 2020 increased by $94.9 million or 38% and $172.3 million or 37%, respectively, compared to the three and six months ended June 30, 2019. On October 31, 2019, we completed the sale of the Caviar business, and, accordingly, Caviar no longer contributes to subscription and services-based revenue. Excluding Caviar, Subscription and services-based revenue grew by $138.3 million, or 66%, and $262.2 million, or 69%, for the three and six month ended June 30, 2020, respectively compared to the three and six months ended June 30, 2019 driven primarily by Cash App. Cash App subscription and services-based revenue is primarily comprised of transaction fees from Cash App Instant Deposit and Cash Card, with a small portion generated from interest earned on customer funds. In March and April 2020 in an effort to support our sellers we suspended charging and refunded software subscription fees we had charged the sellers. Square Capital, which has historically been a significant component of the subscriptions and services revenue, suspended facilitating loans to sellers in the second quarter of 2020, other than PPP loans.

Hardware revenue for the three and six months ended June 30, 2020 decreased by $2.9 million or 13% and $0.5 million or 1%, respectively, compared to the three and six months ended June 30, 2019. The decrease primarily reflects a deceleration in hardware unit sales beginning in the latter half of March 2020 and continuing into the second quarter as a result of the COVID-19 outbreak, partially offset by an increase in sales of contactless hardware noted in May and June of 2020, as compared to April 2020.

Bitcoin revenue for the three and six months ended June 30, 2020 increased by $750.4 million or 600% and $990.9 million or 520%, respectively, compared to the three and six months ended June 30, 2019. The increase was due to growth in the number of active bitcoin customers, as well as growth in customer demand. The amount of bitcoin revenue recognized will fluctuate depending on the volatility of bitcoin prices in the market and customer demand.

Cost of Revenue (in thousands, except for percentages)

	Three Months Ended June 30,				Six Months Ended June 30,			
	2020	**2019**	**$ Change**	**% Change**	**2020**	**2019**	**$ Change**	**% Change**
Transaction-based costs	$ 388,106	$ 490,349	$ (102,243)	(21) %	$ 853,885	$ 899,418	$ (45,533)	(5) %
Subscription and services-based costs	50,169	60,119	(9,950)	(17) %	90,880	120,642	(29,762)	(25) %
Hardware costs	28,315	33,268	(4,953)	(15) %	62,687	60,209	2,478	4 %
Bitcoin costs	858,041	122,938	735,103	598 %	1,157,467	187,634	969,833	517 %
Amortization of acquired technology	2,231	1,719	512	30 %	4,551	3,095	1,456	47 %
Total cost of revenue	$ 1,326,862	$ 708,393	$ 618,469	87 %	$ 2,169,470	$ 1,270,998	$ 898,472	71 %

Total cost of revenue for the three and six months ended June 30, 2020 increased by $618.5 million or 87% and $898.5 million or 71%, respectively, compared to the three and six months ended June 30, 2019.

Transaction-based costs for the three and six months ended June 30, 2020 decreased by $102.2 million or 21% and $45.5 million or 5%, respectively, compared to the three and six months ended June 30, 2019. The decrease was primarily attributable to the decline in GPV processed of 15% and 2%, for the three and six months ended June 30, 2020, respectively, compared to the three and six months ended June 30, 2019. The decrease in transaction-based costs was higher than the decrease in GPV driven mainly by a higher percentage of debit card transactions and increase in average value per transaction which have lower costs.

Subscription and services-based costs for the three and six months ended June 30, 2020 decreased by $10.0 million or 17% and $29.8 million or 25%, respectively, compared to the three and six months ended June 30, 2019. The decrease was mainly a result of the sale of the Caviar business on October 31, 2019. Caviar contributed approximately 50% and 54% of total subscription and services-based costs in the three and six months ended June 30, 2019, respectively. Excluding Caviar, subscription and services-based costs increased driven mainly by growth in costs associated with Cash Card and Instant Deposit.

Hardware costs for the three months ended June 30, 2020 compared to the three months ended June 30, 2019 decreased by $5.0 million or 15%, primarily due to a deceleration in hardware unit sales, as described above. Hardware costs for the six months ended June 30, 2020 compared to the six months ended June 30, 2019 increased by $2.5 million or 4%, primarily due to increased sales of hardware in our international markets, in the early part of the year, offset in part by the reduced sales after the COVID-19 outbreak. We however experienced an increase in sales of contactless hardware in May and June of 2020 as compared to April 2020, as we offered promotions on the contactless hardware.

Bitcoin costs for the three and six months ended June 30, 2020 increased by $735.1 million or 598% and $969.8 million or 517%, respectively, compared to the three and six months ended June 30, 2019. Bitcoin costs of revenue comprises amounts we pay to purchase bitcoin, which will fluctuate in line with bitcoin revenue.

Operating Expenses (in thousands, except for percentages)

	Three Months Ended June 30,				Six Months Ended June 30,			
	2020	2019	$ Change	% Change	2020	2019	$ Change	% Change
Product development	$ 206,825	$ 174,201	$ 32,624	19 %	$ 401,811	$ 328,551	$ 73,260	22 %
% of total net revenue	*11 %*	*15 %*			*12 %*	*15 %*		
Sales and marketing	$ 238,096	$ 156,421	$ 81,675	52 %	$ 432,631	$ 290,134	$ 142,497	49 %
% of total net revenue	*12 %*	*13 %*			*13 %*	*14 %*		
General and administrative	$ 136,386	$ 100,508	$ 35,878	36 %	$ 265,881	$ 202,106	$ 63,775	32 %
% of total net revenue	*7 %*	*9 %*			*8 %*	*9 %*		
Transaction and loan losses	$ 37,603	$ 34,264	$ 3,339	10 %	$ 146,486	$ 62,105	$ 84,381	136 %
% of total net revenue	*2 %*	*3 %*			*4 %*	*3 %*		
Amortization of acquired customer assets	$ 905	$ 1,294	$ (389)	(30) %	$ 1,795	$ 2,588	$ (793)	(31) %
% of total net revenue	*— %*	*— %*			*— %*	*— %*		
Total operating expenses	$ 619,815	$ 466,688	$ 153,127	33 %	$ 1,248,604	$ 885,484	$ 363,120	41 %

Product development expenses for the three and six months ended June 30, 2020 increased by $32.6 million or 19% and $73.3 million or 22%, respectively, compared to the three and six months ended June 30, 2019, due primarily to the following:

- an increase of $20.4 million and $53.0 million in personnel costs for the three and six months ended June 30, 2020, related to our engineering, data science, and design teams, as we continue to improve and diversify our products. The increase in personnel related costs includes an increase in share-based compensation expense of $13.4 million and $28.2 million for the three and six months ended June 30, 2020; and

- an increase of $8.7 million and $12.7 million in software and data center operating costs for the three and six months ended June 30, 2020, as a result of increased capacity needs and expansion of our cloud-based services.

Sales and marketing expenses for the three and six months ended June 30, 2020 increased by $81.7 million or 52% and $142.5 million or 49%, respectively, compared to the three and six months ended June 30, 2019, primarily due to an increase of $79.6 million and $127.7 million in Cash App marketing costs for the three and six months ended June 30, 2020, associated with increased volume of activity with our Cash App peer-to-peer service and related transactions losses, Cash Card issuance costs in line with an increase in customers, and advertising. We offer the Cash Card and certain peer-to-peer services to our Cash App customers for free, and we consider these to be marketing tools to encourage the usage of Cash App.

General and administrative expenses for the three and six months ended June 30, 2020 increased by $35.9 million or 36% and $63.8 million or 32%, respectively, compared to the three and six months ended June 30, 2019, primarily due to the following:

- an increase of $7.0 million and $14.5 million in general and administrative personnel costs for the three and six months ended June 30, 2020, mainly as a result of additions to our customer support, finance, legal and compliance personnel as we continued to add resources and skills to support our long-term growth as our business continues to scale. The increase in personnel related costs includes an increase in share-based compensation expense of $2.2 million and $3.4 million for the three and six months ended June 30, 2020; and

- the remaining increase was primarily due to facilities expansion, software and subscription costs, local business-related taxes, third-party legal and other professional fees and other administrative expenses, as well as impact of revisions to our statutory reserves.

Transaction and loan losses for the three and six months ended June 30, 2020 increased by $3.3 million or 10% and $84.4 million or 136%, respectively, compared to the three and six months ended June 30, 2019, primarily due to the following:

- transaction losses increased by $9.1 million and $74.4 million for the three and six months ended June 30, 2020. During the first quarter of 2020, we had recorded incremental provisions for our Seller business due to the expected impact of the COVID-19 outbreak and the subsequent shelter in place orders that resulted in significant slowdown in business. During the second quarter of 2020, we revised our estimate of transactions loss reserves recorded in the first quarter of 2020 due to better than expected realized transaction losses. This revision to our first quarter of 2020 reserve partially offset the incremental transaction loss reserve recorded for the second quarter of 2020.

- loan losses for the three months ended June 30, 2020 decreased by $5.8 million compared to the three months ended June 30, 2019, while the losses increased $9.9 million in the six months ended June 30, 2020 compared to the six months ended June 30, 2019. During the first quarter of 2020, we recorded incremental provisions for loan losses associated with the COVID-19 outbreak, and to a lesser extent the growth and aging of our Square Capital loan portfolio. During the second quarter of 2020, we noted improvements in businesses as some states started reopening and relaxing the shelter-in place measures and have accordingly adjusted the provisions for loan losses. Additionally, other than PPP loans, we suspended offers for new loans in the second quarter of 2020 which contributed to the decrease in loan losses.

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2020	**2019**	**$ Change**	**% Change**	**2020**	**2019**	**$ Change**	**% Change**
Interest expense, net	$ 14,769	$ 5,143	$ 9,626	187 %	$ 23,975	$ 9,824	$ 14,151	144 %
Other expense (income), net	$ (25,591)	$ 1,230	$ (26,821)	(2,181)%	$ (19,729)	$ 12,529	$ (32,258)	(257)%

Interest expense, net, for the three and six months ended June 30, 2020 increased by $9.6 million and $14.2 million, respectively, compared to the three months ended June 30, 2019. The increases were primarily due to higher interest expense related to our convertible notes as a result of the issuance of the 2025 Notes in March 2020, in addition to a decrease in interest income earned on our investments in marketable debt securities due to lower interest rates prevailing in the market.

The other income reported for the three and six months ended June 30, 2020 was mainly due to a $21.0 million gain from adjustments to our non-marketable equity investments for observable price changes in the period. The other expense reported in the three and six months ended June 30, 2019 was due to the impact of mark to market of our equity investment in Eventbrite, which was sold in December 2019. These activities are offset by the foreign exchange gains and losses.

Segment Results

Seller Results

The following tables provide a summary of the revenue and gross profit for our Seller segment for the three and six months ended June 30, 2020 and 2019 (in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2020	2019	$ Change	% Change	2020	2019	$ Change	% Change
Net revenue	$ 723,356	$ 870,356	(147,000)	(17) %	$ 1,576,823	$ 1,605,782	(28,959)	(2) %
Cost of revenue	407,656	523,148	(115,492)	(22) %	905,354	958,071	(52,717)	(6) %
Gross profit	$ 315,700	$ 347,208	$ (31,508)	(9) %	$ 671,469	$ 647,711	$ 23,758	4 %

Revenue

Revenue for the Seller segment for the three and six months ended June 30, 2020 decreased by $147.0 million or 17% and $29.0 million or 2%, respectively, compared to the three and six months ended June 30, 2019. The decrease was due to lower GPV processed following the COVID-19 outbreak and the subsequent shelter in place orders that resulted in material deceleration of Seller revenues in the latter half of March 2020 through mid-April 2020. Subsequently, we experienced improvements in GPV processed as states started relaxing the shelter in place orders and businesses started to adapt with introduction of delivery, curbside and to-go orders. The decrease in GPV was also partially offset by a higher percentage of card-not-present transactions in the second quarter of 2020, which have a higher price, as well as the impact of our November 2019 card-present price change. Additionally, Square Capital suspended facilitating loans to sellers in the second quarter of 2020, other than loans under PPP, further negatively impacting the growth of Seller revenues.

Cost of revenue

Cost of revenue for the Seller segment for the three and six months ended June 30, 2020 decreased by $115.5 million or 22% and $52.7 million or 6%, respectively, compared to the three and six months ended June 30, 2019 in line with the decrease in Seller GPV processed which decreased by 20% and 5%, respectively. The decrease in Seller costs was greater than the decrease in GPV driven primarily by a higher percentage of debit card transactions and increase in average value per transaction which have lower costs.

Cash App

The following tables provide a summary of the revenue and gross profit for our Cash App segment for the three and six months ended June 30, 2020 and 2019 (in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2020	2019	$ Change	% Change	2020	2019	$ Change	% Change
Net revenue	$ 1,200,269	$ 260,493	939,776	361 %	$ 1,727,911	$ 437,895	1,290,016	295 %
Cost of revenue	919,206	155,152	764,054	492 %	1,264,116	247,743	1,016,373	410 %
Gross profit	$ 281,063	$ 105,341	$ 175,722	167 %	$ 463,795	$ 190,152	$ 273,643	144 %

Revenue

Revenue for the Cash App segment for the three and six months ended June 30, 2020 increased by $0.9 billion or 361% and $1.3 billion or 295%, respectively, compared to the three and six months ended June 30, 2019. The primary drivers were growth in Bitcoin revenue, as well as Cash App Instant Deposit and Cash Card. Bitcoin revenue increased primarily driven by an increase in the number of active bitcoin customers, as well as growth in customer demand.

Cost of revenue

Cost of revenue for the Cash App segment for the three and six months ended June 30, 2020 increased by $0.8 billion or 492% and $1.0 billion or 410%, respectively, compared to the three and six months ended June 30, 2019. The primary drivers for the increase were growth in Bitcoin revenue, as well as Cash App Instant Deposit and Cash Card.

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 total net revenue, net income (loss), and other results under generally accepted accounting principles (GAAP), the following table sets forth key operating metrics and non-GAAP financial measures we use to evaluate our business. We believe these metrics and measures are useful to facilitate period-to-period comparisons of our business and to facilitate comparisons of our performance to that of other payments solution providers.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Gross Payment Volume (GPV) (in millions)	$ 22,801	$ 26,785	$ 48,544	$ 49,371
Adjusted EBITDA (in thousands)	$ 97,931	$ 105,304	$ 107,262	$ 167,001
Adjusted Net Income Per Share:				
Basic	$ 0.20	$ 0.23	$ 0.18	$ 0.36
Diluted	$ 0.18	$ 0.21	$ 0.17	$ 0.32

Gross Payment Volume (GPV)

We define GPV as the total dollar amount of all card payments processed by sellers using Square, net of refunds. Additionally, GPV includes Cash App activity related to peer-to-peer payments sent from a credit card and business accounts.

Adjusted EBITDA and Adjusted Net Income Per Share (Adjusted EPS)

Adjusted EBITDA and Adjusted EPS are non-GAAP financial measures that represent our net income (loss) and net income (loss) per share, adjusted to eliminate the effect of certain items as described below. We have included these non-GAAP financial measures in this Quarterly Report on Form 10-Q because they are key measures 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 these measures provide useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors. In addition, they provide useful measures for period-to-period comparisons of our business, as they remove the effect of certain non-cash items and certain variable charges.

- We believe it is useful to exclude certain non-cash charges, such as amortization of intangible assets, and share-based compensation expenses, from our non-GAAP financial measures because the amount of such expenses in any specific period may not directly correlate to the underlying performance of our business operations.
- In connection with the issuance of our convertible senior notes (as described in Note 12, *Indebtedness,* of the notes of the Condensed Consolidated Financial Statements), we are required to recognize non-cash interest expense related to amortization of debt discount and issuance costs. We believe that excluding these expenses from our non-GAAP measures is useful to investors because such incremental non-cash interest expense does not represent a current or future cash outflow for the Company and is therefore not indicative of our continuing operations or

meaningful when comparing current results to past results. Additionally, for purposes of calculating diluted Adjusted EPS, we add back cash interest expense on convertible senior notes, as if converted at the beginning of the period, if the impact is dilutive, since we intend to settle future conversions of our convertible senior notes entirely in shares.

- We exclude the gain or loss on the disposal of property and equipment, gain or loss on revaluation of equity investment, gain or loss on debt extinguishment related to the conversion of senior notes and impairment of intangible assets, as applicable, from non-GAAP financial measures because we do not believe that these items are reflective of our ongoing business operations.

- We also exclude certain costs associated with acquisitions that are not normal recurring operating expenses, including amounts paid to redeem acquirees' unvested share-based compensation awards, and legal, accounting and due diligence costs, and we add back the impact of the acquired deferred revenue and deferred cost adjustment, which was written down to fair value in purchase accounting. Such amounts were not included in prior periods as they were immaterial or zero.

In addition to the items above, Adjusted EBITDA as a non-GAAP financial measure also excludes depreciation, other cash 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.

Non-GAAP financial measures have limitations, should be considered as supplemental in nature and are 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;

- the intangible assets being amortized may have to be replaced in the future, and the non-GAAP financial measures do not reflect cash capital expenditure requirements for such replacements or for new capital expenditures or other capital commitments; and

- non-GAAP measures do not reflect changes in, or cash requirements for, our working capital needs.

In addition to the limitations above, Adjusted EBITDA as a non-GAAP financial measure does not reflect the effect of depreciation expense and related cash capital requirements, income taxes that may represent a reduction in cash available to us, and the effect of foreign currency exchange gains or losses which is included in other income and expense.

Other companies, including companies in our industry, may calculate the non-GAAP financial measures differently or not at all, which reduces their usefulness as comparative measures.

Because of these limitations, you should consider the non-GAAP financial measures 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 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net loss	$ (11,478)	$ (6,740)	$ (117,369)	$ (44,891)
Share-based compensation expense	96,180	79,466	173,483	140,554
Depreciation and amortization	21,056	18,783	41,117	37,754
Interest expense, net	14,769	5,143	23,975	9,824
Other expense (income), net	(25,591)	1,230	(19,729)	12,529
Loss on disposal of property and equipment	1,481	281	1,699	300
Acquisition related and other costs	2,056	6,133	3,580	6,915
Acquired deferred revenue adjustment	302	1,849	959	5,305
Acquired deferred costs adjustment	(92)	(365)	(236)	(942)
Income tax benefit	(752)	(476)	(217)	(347)
Adjusted EBITDA	$ 97,931	$ 105,304	$ 107,262	$ 167,001

The following table presents a reconciliation of net loss to Adjusted EPS for each of the periods indicated (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net loss	$ (11,478)	$ (6,740)	$ (117,369)	$ (44,891)
Share-based compensation expense	96,180	79,466	173,483	140,554
Amortization of intangible assets	4,134	3,958	8,286	7,445
Amortization of debt discount and issuance costs	17,580	9,725	30,108	19,333
Loss (gain) on revaluation of equity investment	(20,998)	4,842	(20,998)	18,929
Loss on extinguishment of long-term debt	—	—	990	—
Loss on disposal of property and equipment	1,481	281	1,699	300
Acquisition related and other costs	2,056	6,133	3,580	6,915
Acquired deferred revenue adjustment	302	1,849	959	5,305
Acquired deferred costs adjustment	(92)	(365)	(236)	(942)
Adjusted Net Income - basic	$ 89,165	$ 99,149	$ 80,502	$ 152,948
Cash interest expense on convertible senior notes	$ 1,565	$ 1,277	$ 2,938	$ 1,277
Adjusted Net Income - diluted	$ 90,730	$ 100,426	$ 83,440	$ 154,225
Weighted-average shares used to compute Adjusted Net Income Per Share:				
Basic	440,117	423,305	437,529	421,297
Diluted	500,201	486,532	495,181	486,794
Adjusted Net Income Per Share:				
Basic	$ 0.20	$ 0.23	$ 0.18	$ 0.36
Diluted	$ 0.18	$ 0.21	$ 0.17	$ 0.32

To calculate the diluted Adjusted EPS, we adjust the weighted-average number of shares of common stock outstanding for the dilutive effect of all potential shares of common stock.

In periods when we recorded an Adjusted Net Loss, the diluted Adjusted EPS is the same as basic Adjusted EPS because the effects of potentially dilutive items were anti-dilutive given the Adjusted Net Loss position.

Liquidity and Capital Resources

The uncertainty caused by the COVID-19 outbreak continues both in the United States and globally, with the duration and severity of the pandemic and the overall impact on consumer demand and overall economy still unknown. We are unable to forecast the full impact on our business; however, this represents a known area of uncertainty and we now expect that impacts from the COVID-19 pandemic and the related economic disruption will have a material and adverse impact on our business, results of operations, financial condition and cash flows. To address the potential impact to our business, over the near-term, we are continuing to evaluate the pace of our investment plans, including, but not limited to, our hiring, real estate and facilities, and marketing campaigns. Additionally, we have suspended and/or limited expenses on company events, travel, and certain other discretionary expenses.

As of June 30, 2020, we had approximately $3.7 billion in available funds, including amounts available under our revolving credit facility, as described in Note 12, *Indebtedness*, of Notes to the Condensed Consolidated Financial Statements. We intend to continue focusing on our long-term business initiatives and believe that our available funds are sufficient to meet our liquidity needs for the foreseeable future. We are carefully monitoring and managing our cash position in light of ongoing conditions and levels of operations.

Liquidity Sources

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

	June 30, 2020	December 31, 2019
Cash and cash equivalents	$ 1,972,762	$ 1,047,118
Short-term restricted cash	19,761	38,873
Long-term restricted cash	13,685	12,715
Cash, cash equivalents, and restricted cash	$ 2,006,208	$ 1,098,706
Investments in short-term debt securities	714,348	492,456
Investments in long-term debt securities	446,685	537,303
Cash, cash equivalents, restricted cash, and investments in marketable debt securities	$ 3,167,241	$ 2,128,465

Our principal sources of liquidity are our cash and cash equivalents and investments in marketable debt securities. As of June 30, 2020, we had $3.2 billion of cash and cash equivalents, restricted cash, and investments in marketable debt 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 debt securities are classified as available for sale.

As of June 30, 2020, we held over $2.0 billion in aggregate principal amount of convertible senior notes, comprised of $186.3 million in aggregate principal amount of outstanding convertible senior notes that mature on March 1, 2022 (2022 Notes), $862.5 million in aggregate principal amount of convertible senior notes that mature on May 15, 2023 (2023 Notes), and $1.0 billion in aggregate amount of convertible senior notes that mature on March 1, 2025 (2025 Notes). The 2022 Notes bear interest at a rate of 0.375% payable semi-annually on March 1 and September 1 of each year, while the 2023 Notes bear interest at a rate of 0.50% payable semi-annually on May 15 and November 15 of each year, and the 2025 Notes bear interest at a rate of 0.125% payable semi-annually on March 1 and September 1 of each year. These notes can be converted or repurchased prior to maturity if certain conditions are met. We currently expect to settle future conversions of the notes entirely in shares of the our Class A common stock and will reevaluate this policy from time to time as conversion notices are received from holders of the notes.

In May 2020, we entered into a new revolving credit agreement with certain lenders, which provides a $500.0 million senior unsecured revolving credit facility (the "2020 Credit Facility") maturing in May 2023. Loans under the 2020 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 the adjusted LIBOR rate plus 1.00%, in each case case, plus a margin ranging from 0.25% to 0.75% or (ii) an adjusted LIBOR rate plus a margin ranging from 1.25% to 1.75%. The margin is determined based on our total net leverage ratio, as defined in the agreement. We are obligated to pay other customary fees for a credit facility of this size and type including an unused commitment fee of 0.15%. To date, no funds have been drawn and no letters of credit have been issued under the 2020 Credit Facility.

As earlier mentioned, in June 2020, we entered into the PPPLF agreement with the Federal Reserve Bank of San Francisco to secure additional credit collateralized by PPP loans. As of June 30, 2020, $447.8 million of PPPLF advances were outstanding and collateralized by the same value of PPP loans. The advances under this facility are repayable if the associated PPP loans are forgiven, repaid by a customer or settled by the government guarantee.

See Note 12, *Indebtedness*, of the Notes to the Condensed Consolidated Financial Statements for more details on these transactions.

We believe that our existing cash and cash equivalents, investment in marketable debt securities, and availability under our line of credit will be sufficient to meet our working capital needs, including any expenditures related to strategic transactions and investment commitments that we may from time to time enter into, 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 provide assurance that any additional financing will be available to us on acceptable terms or at all.

Short-term restricted cash of $19.8 million as of June 30, 2020 reflects pledged cash deposited into savings accounts at the financial institutions that process our sellers' payments transactions and as collateral pursuant to an agreement with the originating bank for the Company's loan product. 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 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. Additionally, this balance includes certain amounts held as collateral pursuant to multi-year lease agreements, discussed in the paragraph below, which we expect to become unrestricted within the next year.

Long-term restricted cash of $13.7 million as of June 30, 2020 is primarily related to cash deposited into money market funds that is used as collateral pursuant to multi-year lease agreements. The Company has recorded this amount as a non-current asset on the consolidated balance sheets as the lease terms extend beyond one year.

We experience significant day-to-day fluctuations in our cash and cash equivalents due to fluctuations in 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 balances typically will be higher 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, settlements receivable, and customers payable amounts increase. Typically our 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. Customers payable, excluding amounts attributable to Cash App stored funds, and settlements 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. Also customer funds obligations, which are included in customers payable, may cause customers payable to trend differently than settlements receivable. Holidays and day-of-week may also cause significant volatility in daily GPV amounts.

Cash Flow Activities

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

	Six Months Ended June 30,	
	2020	2019
Net cash provided by (used in) operating activities	$ (151,833)	$ 165,836
Net cash used in investing activities	(302,295)	(95,755)
Net cash provided by (used in) financing activities	1,366,812	(42,405)
Effect of foreign exchange rate on cash and cash equivalents	(5,182)	2,340
Net increase in cash, cash equivalents, and restricted cash	$ 907,502	$ 30,016

Cash Flows from Operating Activities

Cash provided by operating activities consisted of our net loss adjusted for certain non-cash items, including gain or loss on revaluation of equity investment, depreciation and amortization, non-cash interest and other expense, share-based compensation expense, transaction and loan losses, deferred income taxes, non-cash lease expense, as well as the effect of changes in operating assets and liabilities, including working capital.

For the six months ended June 30, 2020, cash used in operating activities was $151.8 million, primarily due to a net loss of $117.4 million, PPP loans facilitated, less loans sold, of $465.5 million, adjusted for the add back of non-cash expenses of $405.4 million, consisting primarily of share-based compensation, transaction and loan losses, depreciation and amortization, and non-cash interest and other expenses. Whereas the increase in transaction and loan losses was largely caused by estimated losses attributable to the COVID-19 pandemic, the increase in other non-cash expenses was primarily due to the growth and expansion of our business activities.

For the six months ended June 30, 2019, cash provided by operating activities was $165.8 million, primarily due to a net loss of $44.9 million, adjusted for the add back of non-cash expenses of $287.5 million, consisting primarily of share-based compensation, transaction and loan losses, depreciation and amortization, and non-cash interest and other expenses largely driven by growth and expansion of our business activities. The cash generated from operating activities was negatively affected by a net outflow from changes in other assets and liabilities of $76.8 million.

Cash Flows from Investing Activities

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

For the six months ended June 30, 2020, cash used in investing activities was $302.3 million, primarily due to the net investments of marketable securities including investments from customer funds of $227.4 million. Additional uses of cash were as a result of the purchase of property and equipment of $56.6 million and business acquisitions of $18.4 million.

For the six months ended June 30, 2019, cash used in investing activities was $95.8 million, primarily due to the net investments of marketable securities including investments from customer funds of $43.2 million, the purchase of property and equipment of $30.2 million, and business acquisitions $20.4 million.

Cash Flows from Financing Activities

For the six months ended June 30, 2020, cash provided by financing activities was $1,366.8 million primarily as a result of $936.5 million in net proceeds from the 2025 Notes offering, proceeds from the PPPLF advances of $447.8 million, proceeds from issuances of common stock from the exercise of options and purchases under our employee share purchase plan of $78.1 million, offset by payments for employee tax withholding related to vesting of restricted stock units of $93.7 million.

For the six months ended June 30, 2019, cash used in financing activities was $42.4 million primarily as a result of proceeds from issuances of common stock from the exercise of options and purchases under our employee share purchase plan of $66.9 million, offset by payments for employee tax withholding related to vesting of restricted stock units of $106.7 million.

Contractual Obligations and Commitments

On March 5, 2020, we issued $1.0 billion in aggregate principal amount of 2025 Notes that mature on March 1, 2025, unless earlier converted or repurchased, and bear interest at a rate of 0.125% or $0.6 million payable semi-annually on March 1 and September 1 of each year. See Note 12, *Indebtedness*, of the Notes to the Condensed Consolidated Financial Statements for more details on this transaction.

On June 2, 2020, we entered into the Paycheck Protection Program Liquidity Facility ("PPPLF") agreement with the Federal Reserve Bank of San Francisco to secure additional credit in an aggregate principal amount of up to $500.0 million. Borrowings under the facility accrue interest at a rate of 0.35% and must be collateralized with loans originated under the PPP. The maturity date of any PPPLF advances will be the maturity date of the PPP loan pledged to secure the advance, and will be accelerated upon the occurrence of certain events of default. Although loans originated under the PPP have a stated maturity of between two and five years from origination, some of the loans may be forgiven 24 weeks after disbursement if they meet certain specified criteria. The PPPLF advances are also repayable if the underlying PPP loan is repaid by the customer.

With the exception of the issuance of 2025 Notes and the PPPLF advances, 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, 2019.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

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 accounting policies and the assumptions and estimates associated with transaction and loan losses, especially due to uncertainties associated with the COVID-19 outbreak, and revenue recognition have the greatest potential effect on our consolidated financial statements. Therefore, we consider these to be our 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, 2019. Our critical accounting policies have not materially changed during the six months ended June 30, 2020.

Recent Accounting Pronouncements

See "Recent Accounting Pronouncements" 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 debt securities as of June 30, 2020, 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 debt 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 to hold these instruments until maturity if necessary to reduce 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, Australian Dollar, Euro and British Pound. 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

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 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. For information regarding legal proceedings in which we are involved, see “Litigation” in Note 17 of the accompanying notes to our condensed consolidated financial statements, which is incorporated herein by reference.

In addition, from time to time, we are involved in various other litigation matters and disputes arising in the ordinary course of business. We cannot at this time fairly estimate a reasonable range of exposure, if any, of the potential liability with respect to these other matters. While we do not believe, at this time, that any ultimate liability resulting from any of these other matters will have a material adverse effect on our results of operations, financial position, or liquidity, we cannot give any assurance regarding the ultimate outcome of these other matters, and their resolution could be material to our operating results for any particular period.

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 condensed 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, 2019 under the heading "Risk Factors."

Risks Related to Our Business and Our Industry

The ongoing COVID-19 pandemic and measures intended to prevent its spread have had, and may continue to have, a material and adverse effect on our business and results of operations.

Global health concerns relating to the COVID-19 pandemic and related government actions taken to reduce the spread of the virus have been weighing on the macroeconomic environment, and the pandemic has significantly increased economic uncertainty and reduced economic activity. Small businesses, which constitute a large part of our sellers, have been impacted particularly hard. The pandemic has resulted in government authorities and businesses implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter in place or total lock-down orders, school closures, and business limitations and shutdowns. Such measures have significantly contributed to rising unemployment and negatively impacted consumer and business spending.

The outbreak has adversely impacted, and is likely to continue to adversely impact, our operations and the operations of our customers and business partners. For example, our customer support for Cash App is operating at reduced levels, as certain vendors we have used to perform such functions have had to shut down some operations. The pandemic has caused us to modify our business practices to help minimize the risk of the virus to our employees, our customers, and the communities in which we participate, which could negatively impact our business. These measures include temporarily requiring employees to work remotely, suspending all non-essential business travel for our employees, suspending external guests from visiting our offices, and canceling, postponing, or holding meetings and events virtually. Given the continually evolving situation, there is no certainty that the measures we have taken will be sufficient to mitigate the risks posed by the virus.

The extent to which the COVID-19 outbreak impacts our business, results of operations, and financial condition will depend on developments that continue to be highly uncertain and difficult to predict, including, but not limited to, the duration and spread of the outbreak, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume. Even after the COVID-19 pandemic has subsided, we may experience material and adverse impacts to our business as a result of the virus's global economic impact, including the availability of credit, bankruptcies or insolvencies of customers, and any recession or economic downturn that has occurred or may occur in the future.

There are no comparable recent events that provide guidance as to the effect the COVID-19 pandemic may have, and, as a result, the ultimate impact of the pandemic is highly uncertain and subject to change. We do not yet know the full extent of the impacts on our business, our operations, or the global economy as a whole. However, the effects could have a material impact on our results of operations and heighten many of the known risks described throughout this Risk Factors section.

Our participation in government relief programs set up in response to the COVID-19 pandemic, such as facilitating loans to businesses under the Paycheck Protection Program or unemployment benefits and stimulus payments to individuals through Cash App, may subject us to new risks and uncertainties.

Federal, state, local, and foreign governmental authorities have enacted, and may enact in the future, legislation, regulations, and programs in response to the COVID-19 pandemic intended to provide economic relief to businesses and individuals. Our participation in, or facilitation of, such programs may expose us to new risks and uncertainties.

Square Capital is an approved participant under the Paycheck Protection Program ("PPP") administered by the Small Business Administration ("SBA") and enacted in March 2020 under the Coronavirus Aid, Relief, and Economic Security Act

("CARES Act") in response to the COVID-19 pandemic. The program is intended to provide funding for businesses so they can retain employees and includes initial loan repayment deferrals and debt forgiveness provisions for eligible borrowers. Under the program, Square Capital, through a bank partner, provides small businesses two-year or five-year loans at a fixed interest rate of one percent for up to 2.5 times the borrower's monthly payroll expenses. The loan is forgiven under the program if the loan proceeds are used for specified expenses, including payroll and benefit costs, rent payments, utilities, and mortgage and certain interest expenses; provided that at least 60% of the loan proceeds are utilized for qualifying payroll costs and the borrower maintains or rehires employees during the specified periods. As of June 30, 2020, Square Capital had facilitated over $873 million of PPP loans. Square Capital has retained some of these PPP loans in its portfolio, but also sold 100% participations in certain PPP loans to an institutional third-party investor. In addition, Square Capital has borrowed money from the Federal Reserve secured by PPP loans in its portfolio.

As a participant in the Paycheck Protection Program, Square Capital is exposed to new risks and uncertainties since certain processes and program requirements are still being developed, iterated upon, and have not yet been tested, which exposes us to risks related to documentation, verification, forgiveness, and servicing of such loans. In the event that it is determined that a borrower does not qualify for loan forgiveness or if a borrower defaults, Square Capital is at risk to the extent the SBA may decline to honor its guarantee or to forgive the loan due to documentation or verification errors, failure to follow regulatory requirements, or lack of adherence to underwriting standards. As a result, Square Capital's documentation and review and underwriting processes will be subject to scrutiny, and we could incur losses if we fail to comply with the SBA documentation and other requirements. We have become subject to litigation arising as a result of our participation in this program and may in the future become subject to additional lawsuits. If such litigation is not resolved in a manner favorable to us, it may result in significant financial liability or adversely affect our reputation. In addition, litigation can be costly, regardless of outcome. There can be no assurance that Square Capital will be successful in mitigating all of the risks associated with the PPP or that this lending will not have a negative impact on Square Capital's business and results of operations.

Separately, the CARES Act also provided for stimulus funds, called economic impact payments, to individuals, expanded eligibility for unemployment benefits, increased the amount of unemployment insurance benefits, and extended the period for such payments. Cash App has been facilitating the payment of unemployment benefits and stimulus funds by offering account and routing numbers that customers can use to deposit such payments directly into their Cash App accounts. Cash App has also worked with partner banks to expand direct deposit eligibility for its customers. These federal stimulus programs were set up quickly and under difficult and unprecedented circumstances and the implementation of these programs at the federal, state, and local levels has been complex and difficult, causing them to be more susceptible to fraud, data breaches, technical difficulties, and other new and uncertain risks. Cash App's facilitation of unemployment and stimulus payments may therefore expose us to operational, compliance, reputational, and legal risks, which could result in governmental action, litigation, or other forms of material and adverse loss.

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. 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 expanding our base of customers. Maintaining and promoting our brand will depend largely on our ability to continue to provide useful, reliable, secure, and innovative products and services, as well as our ability to maintain trust and be a technology leader. We may introduce, or make changes to, features, products, services, privacy practices, 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, data use practices 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 customers would be materially harmed. We also use retail partners to sell hardware and acquire customers. Our ability to acquire new customers could be materially harmed if we are unable to enter into or maintain these partnerships on terms that are commercially reasonable to us, or at all.

Harm to our brand can arise from many sources, including failure by us or our partners and service providers to satisfy expectations of service and quality; inadequate protection or misuse of sensitive information; compliance failures and claims; litigation and other claims; and misconduct by our partners, service providers, or other counterparties. 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 and our business that could damage our brand and deter customers from adopting our 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 customer complaints, our privacy, data protection, and information security practices, litigation, regulatory activity, policy positions, and the experience of our customers with our products or services could adversely affect our reputation and the confidence in and use of our products and services. If we do not successfully maintain a strong and trusted brand, our business could be materially and adversely affected.

As our revenue has increased, our growth rate has slowed at times in the past and may slow or decline in the future, and our growth rates in each of our reporting segments may vary. Future revenue growth depends on our ability to retain existing sellers, attract new sellers, and increase sales to both new and existing sellers, as well as our ability to attract and retain Cash App customers and grow their use of Cash App services.

Our rate of revenue growth has slowed at times in the past and may decline in the future, and it may slow or decline more quickly than we expect for a variety of reasons, including the risks described in this Quarterly Report on Form 10-Q. Additionally, our rate of revenue growth may vary between our two reporting segments. For example, we have experienced a high revenue growth rate in recent periods in our Cash App segment, which has varied and may continue to vary from the growth rate of our Seller segment. Our customers 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 customers, and the difficulty and costs associated with switching to a competitor may not be significant for many of the services we offer, both in the seller ecosystem and the Cash App ecosystem. Our sellers' payment processing activity with us may decrease for a variety of reasons, including sellers' level of satisfaction with our products and services, our pricing and the pricing and quality of competing products or services, the effects of global economic conditions, or reductions in our sellers' customer spending levels. The COVID-19 pandemic has resulted in declines in payment processing activity as certain businesses have been required to close or curtail operations, and accordingly, such reductions have caused declines in our Seller revenue. In addition, we refunded and waived software subscription fees for existing Seller customers during the months of March and April of this year, which lowered our revenue for those months. We also have introduced options for sellers to pause subscriptions temporarily based on their circumstances. Even if we reinstate these subscription fees, there can be no assurances that they will generate revenue at prior levels, as some customers may have closed or curtailed operations or may no longer choose to pay such subscription fees.

The growth of our business depends in part on existing sellers and Cash App customers expanding their use of our products and services. If we are unable to encourage broader use of our services by our sellers and customers, 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 and Cash App customers, to encourage larger sellers to use our products and services, and to introduce successful new products and services. We have experienced rapid growth in the number of monthly transacting active Cash App customers in recent periods. Our level of growth in monthly transacting active Cash App customers and their level of engagement with our products and services are essential to our success and long-term financial performance. However, the growth rate of monthly transacting active Cash App customers has fluctuated over time, and it may slow or decline in the future. A number of factors have affected and could potentially negatively affect Cash App customer growth and engagement, including our ability to introduce new products and services that are compelling to our customers, the network effects of other customers choosing whether to use Cash App, technical or other problems that affect customer experience, and harm to our reputation and brand. We have invested and will continue to invest in improving our Square platform in order to offer better or new features, products, and services and to adjust our product offerings to changing economic conditions, but if those features, products, services, and changes fail to be successful, our growth may slow or decline.

We have generated significant net losses in the past, and we intend to continue to invest substantially in our business. Thus, we may not be able to maintain profitability.

While we generated net income of $375.4 million for the year ended December 31, 2019, we generated net losses of $38.5 million and $62.8 million for the years ended December 31, 2018 and 2017, respectively. During the six months ended June 30, 2020 and June 30, 2019, we generated net losses of $117.4 million and $44.9 million, respectively. As of June 30, 2020, we had an accumulated deficit of $627.7 million.

We intend to continue to make significant investments in our business, including with respect to our employee base; sales and marketing; development of new products, services, and features; acquisitions; 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, attracting and supporting new Cash App customers, or with developing and supporting our products and services materially increase 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 in future periods as our products and services are transferred to our sellers. If we are unable to generate adequate revenue growth and manage our expenses, we may incur significant losses and may not maintain profitability.

From time to time, we have made and may make decisions that will have a negative effect on our short-term operating results if we believe those decisions will improve the experiences of our customers, 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 derive a significant portion of our revenue from managed payments services. Our efforts to expand our product portfolio and market reach may not succeed and may reduce our revenue growth.

We derive a significant portion of our revenue from transaction-based fees we collect in connection with managed payments services in our Seller segment. While Cash App and other products and services we offer have grown in importance to us and we intend to continue to broaden the scope of products and services we offer, we may not be successful in maintaining or growing our current revenue streams, or deriving any significant new revenue streams from these products and services. Failure to successfully broaden the scope of products and services that are attractive may inhibit our growth and harm our business. Furthermore, we may expect to continue to expand our markets in the future, and we may have limited or no experience in such newer markets. For example, we cannot assure you that any of our products or services will be widely accepted in any market or that they will continue to grow in revenue. Our offerings may present new and difficult technological, operational, regulatory, 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 long-term success depends on our ability to develop products and services to address the rapidly evolving market for payments and point-of-sale, 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.

Rapid and significant technological changes continue to confront the industries in which we operate, including developments in omnichannel commerce, proximity payment devices (including contactless payments via NFC technology), as well as developments in cryptocurrencies 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.

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. Our ability to develop new products and services may be inhibited by industry-wide standards, payment card networks, existing and future laws and regulations, resistance to change from our customers, which includes our sellers and their buyers, 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.

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 and development of a robust market for these new products and technologies. 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 technologies. Moreover, our success may depend on our ability to provide products and services that are tailored to specific needs and requirements of our customers. 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 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, evolving industry standards, changing customer needs, 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. For example, in 2019, Apple introduced Apple Card, and other companies not traditionally associated with the payments industry may also introduce products or services that are or may become competitive with our business. We compete against many companies both within our seller ecosystem and our Cash App ecosystem 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, may achieve economies of scale due to the size of their customer bases, and may 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.

Certain sellers have long-standing exclusive, or nearly exclusive, relationships with our competitors to accept payment cards and other services that compete with what 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, our sellers, our partners, and others who use our services obtain and process a large amount of sensitive data. Any real or perceived improper or unauthorized 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 vendors and data centers that we use, obtain and process large amounts of sensitive data, including data related to our customers, our sellers' customers, and their transactions. We face risks, including to our reputation as a trusted brand, in the handling and protection of this data. These risks will increase as our business continues to expand to include new products, subsidiaries, and technologies, and as we and our third party vendors rely on an increasingly distributed workforce. Our operations involve the storage and transmission of sensitive information of individuals using our services, including their names, addresses, social security numbers (or their foreign equivalents), government IDs, payment card numbers and expiration dates, bank account information, loans they have applied for or obtained, and data regarding the performance of our sellers' businesses. Additionally, certain of our products and services are subject to the Health Insurance Portability and Accountability Act of 1996 (and the rules and regulations thereunder, as amended, including with respect to the HITECH Act) (HIPAA), and therefore we are required to take measures to safeguard protected health information of our sellers and their customers. Our services also provide third party developers the opportunity to provide applications to our sellers in the Square and Weebly app marketplaces. Sellers who choose to use such applications can grant permission allowing the applications to access content created or held by sellers in their Square or Weebly account. Should our internal or third party developers experience or cause a breach or a technological bug, that could lead to a compromise of the content of data held by such sellers, including personal data.

If our privacy and security measures or those of third party developers and vendors are inadequate or are breached, and, as a result, there is improper disclosure of or someone obtains unauthorized access to or exfiltrates funds or sensitive information on our systems or our partners' systems, or if we, our third party developers or vendors suffer a ransomware or advanced persistent threat attack, or if any of the foregoing is reported or perceived to have occurred, our reputation and business could be damaged. If the sensitive information is lost or improperly accessed, misused, disclosed, destroyed, or altered or threatened to be improperly accessed, misused, disclosed, destroyed, or altered, we could incur significant financial losses and costs and liability associated with remediation and the implementation of additional security measures and be subject to litigation, regulatory scrutiny, and investigations.

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 certain of their costs and 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 platforms. Any perceived or actual breach of security, regardless of how it occurs or the extent of the breach, could have a significant impact on our reputation as a trusted brand, cause us to lose existing sellers or other customers, prevent us from obtaining new sellers and other customers, 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 including those resulting from governmental or regulatory investigations, class action litigation, and costs associated with remediation, such as fraud monitoring and forensics. Any actual or perceived security breach at a company providing services to us or our customers could have similar effects. Further, any actual or perceived security breach with respect to the bitcoin and blockchain ledger, regardless of whether such breach directly affects our products and services, could have negative reputational effects and harm customer trust in us and our products and services.

While we maintain cybersecurity insurance, our insurance may be insufficient to cover all liabilities incurred by such attacks. We cannot be certain that our insurance coverage will be adequate for data handling or data security liabilities actually incurred, that insurance will continue to be available to us on economically reasonable terms, or at all, or that any insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, premiums, or deductibles could have a material adverse effect on our business, including our financial condition, operating results, and reputation.

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

Our software, hardware, systems, and processes may contain undetected errors or vulnerabilities that could have a material adverse effect on our business, particularly to the extent such errors or vulnerabilities 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 or vulnerabilities may be introduced in the future. If there are such errors or defects in our software, hardware, or systems, we may face negative publicity, government investigations, and litigation. Additionally, we rely on a limited number of component and product suppliers located outside of the U.S. to manufacture our products. As a result, our direct control over production and distribution is limited and it is uncertain what effect such diminished control will have on the quality of our products. If there are defects in the manufacture of our hardware products, we may face similar negative publicity, investigations, and litigation, and we may not be fully compensated by our suppliers for any financial or other liability that we suffer as a result. As our hardware and software services continue to increase in size and complexity, and as we integrate new, acquired subsidiaries with different technology stacks and practices, these risks may correspondingly increase as well.

In addition, we provide frequent incremental releases of product and service updates and functional enhancements, which increase the possibility of errors. The 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. Any errors, data leaks, security breaches, disruptions in services, or other performance problems with our products or services caused by external or internal actors 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-based fees, all of which have occurred in the past. Similarly, security breaches such as cyber-attacks or identity theft could disrupt the proper functioning of our software products or services, cause errors, allow unauthorized access, or disclosure of, to sensitive, proprietary, or confidential information of ours or our customers, and other destructive outcomes. Moreover, security breaches or errors in our hardware or software 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.

Additionally, electronic payment, hardware, and software products and services, including ours, have been, and could continue to be in the future, specifically targeted and penetrated or disrupted by hackers. Because the techniques used to obtain unauthorized access to data, products, and services and to disable, degrade, or sabotage them change frequently and may be difficult to detect or remediate for long periods of time, we and our customers may be unable to anticipate these techniques or implement adequate preventative measures to stop them. If we or our sellers or other customers are unable to anticipate or prevent these attacks, our sellers' or other customers' businesses may be harmed, our reputation could be damaged, and we could incur significant liability.

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

Our systems and those of our third-party vendors, including data center facilities, may experience service interruptions, outages, cyber-attacks and security incidents, human error, earthquakes, hurricanes, floods, pandemics, fires, other natural disasters, power losses, disruptions in telecommunications services, fraud, military or political conflicts, terrorist attacks and other geopolitical unrest, computer viruses, changes in social, political or regulatory conditions or in laws and policies, or other changes or events. Our systems and facilities 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 and other financial services, 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 and other cyber-attacks, system failures, outages, security incidents, 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. More generally, the COVID-19 pandemic has increased attack opportunities available to criminals, as they attempt to profit from disruptions and the resulting shift in companies and individuals working online, as well as the increase in electronic payments, e-commerce, and other online activity. As such, the risk of cybersecurity incidents are increasing, and we cannot provide assurances that our preventative efforts will be successful. 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 customers 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, 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 or man-made 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 do not maintain insurance sufficient to compensate us for the potentially significant losses that could result from disruptions to our services.

Significant natural or other disasters, including pandemics, could also have a material and adverse impact on our sellers, which, in the aggregate, could in turn adversely affect our results of operations.

The loss or destruction of a private key required to access our bitcoin may be irreversible. If we are unable to access our private keys or if we experience a hack or other data loss relating to the bitcoins we hold on behalf of customers, our customers may be unable to access their bitcoins and it could harm customer trust in us and our products.

Bitcoins are controllable only by the possessor of both the unique public key and private key relating to the local or online digital wallet in which the bitcoins are held. While the bitcoin and blockchain ledger require a public key relating to a digital wallet to be published when used in a transaction, private keys must be safeguarded and kept private in order to prevent a third party from accessing the bitcoins held in such wallet. To the extent our private key is lost, destroyed, or otherwise compromised and no backup of the private key is accessible, we will be unable to access the bitcoins held in the related digital wallet. Further, we cannot provide assurance that our wallet will not be hacked or compromised. The bitcoin and blockchain ledger, as well as other cryptocurrencies and blockchain technologies, have been, and may in the future be, subject to security breaches, hacking, or other malicious activities. Any loss of private keys relating to, or hack or other compromise of, digital wallets used to store our customers' bitcoins could adversely affect our customers' ability to access or sell their bitcoins and could harm customer trust in us and our products. Additionally, any loss of private keys relating to, or hack or other compromise of, digital wallets used by third parties to store bitcoins or other cryptocurrencies could have negative reputational effects on us and harm customer trust in us and our products.

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

We offer managed payments and other products and services to a large number of customers. We vet and monitor these customers and the payments transactions we process for them as part of our risk management efforts. 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 and potentially prevent us from satisfying our contractual obligations to our third party partners, which may cause us to be in breach of our obligations. 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. 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 prevent or 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. Our current business and anticipated domestic and international growth will continue to place significant demands on our risk management and compliance efforts, and we will need to continue developing and improving our existing risk management infrastructure, techniques, and processes. In addition, when we introduce new services, expand existing services, including online payment acceptance, focus on new business areas, including consumer financing and installment loans, or begin to operate in markets where we have a limited history of fraud loss, we may be less able to forecast and carry appropriate reserves on our books for those losses. Furthermore, while we maintain a program of insurance coverage for various types of liabilities, we may self-insure against certain business risks and expenses where we believe we can adequately self-insure against the anticipated exposure and risk or where insurance is either not deemed cost-effective or unavailable.

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. The risk of chargebacks is typically greater with our sellers that promise future delivery of goods and services. Moreover, chargebacks typically increase during economic downturns due to sellers becoming insolvent or bankrupt or otherwise unable to fulfill their commitments for goods or services. Consequently, we have seen an increase in chargebacks, and we expect chargebacks to continue to rise as a result of the economic downturn caused by the current COVID-19 pandemic. 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, as the merchant of record, may bear the loss for the amounts paid to the cardholder. We collect and hold reserves for a limited number of sellers whose businesses are deemed higher risk in order to help cover potential losses from chargebacks and refunds, but this practice is limited and there can be no assurances that we will be successful in mitigating such losses. Our financial results would be adversely affected to the extent sellers do not fully reimburse us for the related chargebacks and refunds. Moreover, 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. If we are unable to maintain our losses from chargebacks at acceptable levels, the payment card networks could fine us, increase our transaction-based fees, or terminate our ability to process payment cards. Any increase in our transaction-based fees could damage our business, and if we were unable to accept payment cards, our business would be materially and adversely affected. If any of our risk management policies and processes, including self-insurance or holding seller reserves, are 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 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, and this ability is provided by the payment card networks, including Visa, MasterCard, American Express, and Discover. In a majority of these cases, 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 six years. Our three largest such agreements expire between the third quarter of 2022 and the first quarter of 2023. These banks and acquiring processors may fail or refuse to process transactions adequately, may breach their agreements with us, or may refuse to renegotiate or renew these agreements on terms that are favorable or commercially reasonable. 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, renegotiating, 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 facilitator" providing payment processing services to merchants. The payment card networks set these network rules and have discretion to interpret the rules and change them at any time. Changes to these network rules or how they are interpreted could have a significant impact on our business and financial results. For example, changes in the payment card network rules regarding chargebacks may affect our ability to dispute chargebacks and the amount of losses we incur from chargebacks. 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 and assessment fees, processing fees, and bank settlement fees to third-party payment processors and financial institutions. 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 some cases, we have negotiated favorable pricing with acquiring processors and networks that are contingent on certain business commitments and other conditions. If we fail to meet such conditions, the fees we are charged will rise. Moreover, our acquiring processors and payment card networks may refuse to renew our agreements with them on terms that are favorable, commercially reasonable, or at all. Interchange fees or assessments are also subject to change from time to time due to government regulation. Because we generally charge our sellers a standard rate for our managed 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 less competitive, lead us to change our pricing model, or adversely affect our margins, all of which could materially harm our business and financial results. Likewise, we have negotiated favorable pricing for the processing fees we pay to the payment card networks for peer-to-peer transactions on our Cash App. As such, an increase in interchange fees or assessments could raise our costs for such transactions, which could materially harm our business and financial results.

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. Any such penalties 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.

We rely on third parties and their systems for a variety of services, including the processing of transaction data and settlement of 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 managed payments solution and other products and services (including those for Cash App and Square Capital), we rely on third parties that we do not control, such as the payment card networks, our acquiring and issuing processors, the payment card issuers, a carrying broker, 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 the transmission of transaction data, processing of chargebacks and refunds, settlement of funds to our sellers, certain brokerage services, and the provision of information and other elements of our services. For example, we currently rely on three acquiring processors for each of the United States, Canada, and Japan and two for each of Australia and the United Kingdom. While we believe there are other acquiring processors that could meet our needs, adding or transitioning to new providers may significantly disrupt our business and increase our costs. In the event these third parties fail to provide these services adequately, including as a result of financial difficulty or insolvency, errors in their systems, outages 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. We have in the past experienced outages with third parties we have worked with, which has affected the ability to process payments for cards issued under our own brands.

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, attract, hire, develop, motivate, and retain highly skilled employees. This 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. Additionally, potential changes in U.S. immigration policy may make it difficult to renew or obtain visas for any highly skilled personnel that we have hired or are actively recruiting. Furthermore, our international expansion and our business in general may be materially adversely affected if legislative or administrative changes to immigration or visa laws and regulations impair our hiring processes or projects involving personnel who are not citizens of the country where the work is to be performed. 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.

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. Small businesses have been disproportionately affected by the COVID-19 pandemic and the related measures taken by governments and private industry to protect the public health such as stay-at-home orders. Many businesses are experiencing reduced sales and are processing fewer payments with us, which has had a negative impact on our results of operations. If they cease to operate, they will likely 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 sellers 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 participation in the Square Capital program may slow, or business loans may be paid more slowly, or not at all. In fact, Square Capital temporarily ceased to facilitate new business loans, with the exception of PPP loans, due to the impact of COVID-19, and it is uncertain at what levels Square Capital will begin to facilitate such business loans again. In addition, as we expand our business to offer consumer financing products, those customers may also be disproportionately adversely affected by economic downturns.

Further, our suppliers, distributors, and other third party partners may suffer their own financial and economic challenges. Such suppliers and third parties may demand pricing accommodations, delay payment, or become insolvent, which could harm our ability to meet end customer demands or collect revenue or otherwise could harm our business. 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, our 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.

The COVID-19 pandemic has created significant uncertainty in the global economy. The COVID-19 pandemic and health measures taken by governments and private industry in response to the pandemic, including stay-at-home orders, restrictions on business operations, and travel restrictions, have had significant negative effects on the economy. Continued uncertainty about the pandemic, associated economic consequences, and potential relief measures may have a long-term adverse effect on the economy, our sellers, customers, suppliers, and our business. For example, we are currently subletting some office space to subtenants. An economic downturn or extended work from home practices may cause us to need less office space than we are contractually committed to leasing and prevent us from finding subtenants for such unused office space, causing us to pay for unused office space.

We are also monitoring developments related to the decision by the United Kingdom to leave the European Union (EU) on January 31, 2020 and commence a transition period during which the U.K. and EU negotiate their future relationship. Brexit could have significant implications for our business and could lead to economic and legal uncertainty, including significant volatility in global stock markets and currency exchange rates, and increasingly divergent laws, regulations, and licensing requirements for us as the U.K. determines which EU laws to replace or replicate. Any of these effects of Brexit, among others, could adversely affect our operations and financial results.

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 transact or 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. For example, on June 15, 2020, the Texas Comptroller's Office (the "Comptroller") finalized its audit and informed us that it will be issuing an assessment for $38 million, including interest and penalties, following its sales and use tax audit for the period starting January 1, 2015 through April 30, 2018. The Comptroller alleges that services that we have deemed nontaxable are in fact subject to tax. We strongly disagree with the Comptroller's classification of these services as taxable and believe our position is supported by state case law and the Comptroller's own policies. We plan to vigorously defend our position and pursue all available remedies, including possibly through litigation. Should we not prevail, we could be obligated to pay the additional taxes together with associated penalties and interest for the audited periods. Additional taxes, interest, and penalties for subsequent and future periods could be material as well. In addition, we currently are, and expect to continue to be, subject to numerous federal, state, and foreign tax audits relating to income, transfer pricing, sales & use, VAT, and other tax liabilities. While we have established reserves based on assumptions and estimates that we believe are reasonably sufficient to cover such eventualities, any adverse outcome of such a review or audit could have an adverse impact on our financial position and results of operations if the reserves prove to be insufficient.

Our tax liability could be adversely affected by changes in tax laws, rates, regulations, and administrative practices. Our income tax obligations are based on our corporate operating structure, including the manner in which we develop, value, and use our intellectual property and the scope of our international operations. The tax authorities of the jurisdictions in which we operate may challenge our methodologies for valuing developed technology or intercompany arrangements. For example, various levels of government and international organizations, such as the Organization for Economic Co-operation and Development ("OECD") and the European Union ("EU"), have increasingly focused on future tax reform and any result from this development may create changes to long-standing tax principles, which could adversely affect our effective tax rate. Additionally, tax authorities at the international, federal, state, and local levels are currently reviewing the appropriate tax treatment of companies engaged in internet commerce and financial technology. These developing changes could affect our financial position and results of operations. In particular, due to the global nature of the Internet, it is possible that tax authorities at the international, federal, state, and local levels may attempt to regulate our transactions or levy new or revised sales & use taxes, VAT, digital services taxes, income taxes, or other taxes relating to our activities in the internet commerce and financial technology space. New or revised taxes, in particular, sales & use taxes, VAT, and similar taxes, including digital service taxes, would likely increase the cost of doing business. New taxes could also create significant increases in internal costs necessary to capture data and collect and remit taxes. Any of these events could have an adverse effect on our business and results of operations. Moreover, an increasing number of states, and certain foreign jurisdictions, have considered or adopted laws or administrative practices that attempt to impose obligations for online marketplaces, payment service providers, and other intermediaries. These obligations may deem parties, such as us, to be the legal agent of merchants and therefore may require us to collect and remit taxes on the merchants behalf and take on additional reporting and record-keeping obligations. Any failure by us to prepare for and to comply with these and similar reporting and record-keeping obligations could result in substantial monetary penalties and other sanctions, adversely impact our ability to do business in certain jurisdictions, and harm our business.

The determination of our worldwide provision for income and other tax liabilities is highly complex and requires significant judgment by management, and there are many transactions during the ordinary course of business where the ultimate tax determination is uncertain. Although we believe our estimates are reasonable, the ultimate tax outcome 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.

We have in the past recorded, and may in the future record, significant valuation allowances on our deferred tax assets, which may have a material impact on our results of operations and cause fluctuations in such results.

As of June 30, 2020, we had a valuation allowance for deferred tax assets in the United States, Canada, Ireland and Singapore. Our net deferred tax assets relate predominantly to the United States federal and state tax jurisdictions. The need for a valuation allowance requires an assessment of both positive and negative evidence when determining whether it is more likely than not that deferred tax assets are recoverable; such assessment is required on a jurisdiction-by-jurisdiction basis. In making such assessment, significant weight is given to evidence that can be objectively verified.

We continue to monitor the likelihood that we will be able to recover our deferred tax assets in the future. Future adjustments in our valuation allowance may be required. The recording of any future increases in our valuation allowance could have a material impact on our reported results, and both the recording and release of the valuation allowance could cause fluctuations in our quarterly and annual results of operations.

If we do not continue to improve our operational, financial, and other internal controls and systems to manage growth effectively, our business could be harmed.

Our current business and anticipated growth, as well as our entry into new lines of business, will continue to place significant demands on our management and other resources. In order to manage our growth effectively, we must continue to strengthen our existing infrastructure and operational procedures, enhance our internal controls and reporting systems, and ensure we timely and accurately address issues as they arise. In particular, our continued growth will increase the challenges involved in:

- improving existing and developing new internal administrative infrastructure, particularly our operational, financial, communications, and other internal systems and procedures;
- installing enhanced management information and control systems; and
- preserving our core values, strategies, and goals and effectively communicating these to our employees worldwide.

If we are not successful in developing and implementing the right processes and tools to manage our enterprise, our ability to compete successfully and achieve our business objectives could be impaired.

These efforts may require substantial financial expenditures, commitments of resources, developments of our processes, and other investments and innovations. As we grow, we must balance the need for additional controls and systems with the ability to efficiently develop and launch new features for our products and services. However, it is likely that as we grow, we will not be able to launch new features, or respond to customer or market demands as quickly as a smaller, more efficient organization. If we do not successfully manage our growth, our business will suffer.

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. 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. 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 or Cash App customers;
- failure to anticipate competitive conditions and competition with service providers or other entrenched market-players that have greater experience in the local markets than we do;
- 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;
- 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;
- difficulties in recruiting and retaining qualified employees and maintaining our company culture;
- difficulty in gaining acceptance from industry self-regulatory bodies;
- compliance with multiple, potentially conflicting and changing governmental laws and regulations, including with respect to payments, data privacy, data protection, and information security;
- compliance with U.S. and foreign anti-corruption, anti-bribery, and anti-money laundering laws;
- potential tariffs, sanctions, fines, or other trade restrictions;
- exchange rate risk;
- compliance with complex and potentially conflicting and changing laws of taxing jurisdictions where we conduct business and applicable U.S. tax laws;
- increased exposure to public health issues such as the current COVID-19 pandemic, and related industry and governmental actions to address these issues; 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.

Any acquisitions, strategic investments, entries into new businesses, joint ventures, divestitures, and other transactions could fail to achieve strategic objectives, disrupt our ongoing operations or result in operating difficulties, liabilities and expenses, harm our business, and negatively impact our results of operations.

In pursuing our business strategy, we routinely conduct discussions and evaluate opportunities for possible acquisitions, strategic investments, entries into new businesses, joint ventures, divestitures, and other transactions. We have in the past acquired or invested in, and we continue to seek to acquire or invest, in businesses technologies or other assets that we believe could complement or expand our business. The identification, evaluation, and negotiation of potential transactions may divert the attention of management and entail various expenses, whether or not such transactions are ultimately completed. There can be no assurance that we will be successful in identifying, negotiating, and consummating favorable transaction opportunities. For example, in 2019, we completed the sale of Caviar to DoorDash in exchange for cash and stock consideration. As DoorDash is a privately-held company, there can be no assurances that we will fully realize the value of the stock consideration. In addition to transaction and opportunity costs, these transactions involve large challenges and risks, whether or not such transactions are completed, any of which could harm our business and negatively impact our results of operations, including risks that:

- the transaction may not advance our business strategy;
- we may not be able to secure required regulatory approvals or otherwise satisfy closing conditions for a proposed transaction in a timely manner, or at all;
- the transaction may subject us to additional regulatory burdens that affect our business in potentially unanticipated and significantly negative ways;
- we may not realize a satisfactory return or increase our revenue;
- we may experience difficulty, and may not be successful in, integrating technologies, IT or business enterprise systems, culture, or management or other personnel of the acquired business;

- we may incur significant acquisition costs and transition costs, including in connection with the assumption of ongoing expenses of the acquired business;
- we may not realize the expected benefits or synergies from the transaction in the expected time period, or at all;
- we may be unable to retain key personnel;
- acquired businesses or businesses that we invest in may not have adequate controls, processes, and procedures to ensure compliance with laws and regulations, including with respect to data privacy and security, and our due diligence process may not identify compliance issues or other liabilities. Moreover, acquired businesses' technology stacks may add complexity, resource constraints, and technological debt that makes it difficult and time consuming to achieve such adequate controls, processes, and procedures.
- we may fail to identify or assess the magnitude of certain liabilities, shortcomings, or other circumstances prior to acquiring or investing in a business, which could result in additional financial, legal, or regulatory exposure, which may subject us to additional controls, policies, procedures, liabilities, litigation, costs of compliance or remediation, or other adverse effects on our business, operating results, or financial condition;
- we may have difficulty entering into new market segments or geographic territories;
- we may be unable to retain the customers, vendors, and partners of acquired businesses;
- there may be lawsuits or regulatory actions resulting from the transaction;
- there may be risks associated with undetected security weaknesses, cyberattacks, or security breaches at companies that we acquire or with which we may combine or partner;
- there may be local and foreign regulations applicable to the international activities of our business and the businesses we acquire; 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. If we decide to sell assets or a business, we may have difficulty obtaining terms acceptable to us in a timely manner, or at all. Additionally, we may experience difficulty separating out portions of, or entire, businesses, incur potential loss of revenue or experience negative impact on margins, or we may not achieve the desired strategic and financial benefits. Such potential transactions may also delay achievement of our strategic objectives, cause us to incur additional expenses, potentially disrupt customer or employee relationships, and expose us to unanticipated or ongoing obligations and liabilities, including as a result of our indemnification obligations. Further, during the pendency of a divestiture, we may be subject to risks related to a decline in the business, loss of employees, customers, or suppliers and the risk that the transaction may not close, any of which would have a material adverse effect on the business to be divested and the Company. If a divestiture is not completed for any reason, we may not be able to find another buyer on the same terms, and we may have incurred significant costs without the corresponding benefit.

Joint ventures and minority investments inherently involve a lesser degree of control over business operations, thereby potentially increasing the financial, legal, operational, regulatory, and/or compliance risks associated with the joint venture or minority investment. In addition, we may be dependent on joint venture partners, controlling shareholders, management, or other persons or entities who control them and who may have business interests, strategies, or goals that are inconsistent with ours. Business decisions or other actions or omissions of the joint venture partners, controlling shareholders, management, or other persons or entities who control them may adversely affect the value of our investment, result in litigation or regulatory action against us, and may otherwise damage our reputation and brand.

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 apps. 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 customers to access and use our products and services, our business may be materially and adversely affected. Furthermore, Apple, Google, or other operators of app marketplaces regularly provide software updates, and such software updates may not operate effectively with our products and services, which may reduce the demand for our products and services, result in dissatisfaction by our customers, and may materially and adversely affect our business.

In addition, our hardware interoperates with wired and wireless interfaces to mobile devices developed by third parties. For example, the current versions of our magstripe reader plug into an audio jack or a Lightning connector. The use of these connection types could change, and such changes and other potential changes in the design of future mobile devices could limit the interoperability of our hardware and software with such devices and require modifications to our hardware or software. If we are unable to ensure that our hardware and software continue to interoperate effectively with such devices, if doing so is costly, or if existing merchants decide not to utilize additional parts necessary for interoperability, 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, tariffs, 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 our magstripe reader come from limited or single sources of supply. In addition, in some cases, we rely only on one manufacturer to fabricate, test, and assemble our products. For example, a single manufacturer assembles our magstripe reader and our contactless and chip reader, 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 automatically renews 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 extends through March 2021 and then renews for consecutive one-year periods 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 renews for successive two-year terms 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 or other disruptions in the supply of certain components or products. Our ongoing efforts to identify alternative manufacturers for the assembly of our products and for many of the single-sourced components used in our products may not be successful. 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, or at all. 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. For example, our manufacturers may experience temporary or permanent disruptions in their manufacturing operations due to equipment breakdowns, labor strikes or shortages, natural disasters, the occurrence of a contagious disease or illness, such as COVID-19, component or material shortages, cost increases, acquisitions, insolvency, bankruptcy, business shutdowns, trade restrictions, changes in legal or regulatory requirements, or other similar problems. In particular, the current COVID-19 pandemic has caused disruptions in our supply chain. To the extent COVID-19 pandemic continues and results in an extended period of travel, commercial, and other similar restrictions, disruptions in our supply chain may continue and cause shortages of our hardware products, which would negatively affect our ability to serve and acquire sellers and could materially and adversely impact our financial results. Moreover, our hardware product development has been negatively affected by the COVID-19 pandemic, as our work with manufacturers in China to develop new products and prototypes has been interrupted by factory shutdowns.

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, intellectual property theft, losses due to tampering, third-party vendor issues with quality or sourcing control, failure by our suppliers to comply with applicable laws and regulation, potential tariffs or other trade restrictions, or other similar problems could limit or delay the supply of our products or harm our reputation. 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 manufacturing, 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.

In September of 2018, the United States imposed tariffs on certain imports from China, including on some of our hardware devices manufactured in China. The tariffs on these products were initially set at 10%, but were increased to 25% in May 2019. On September 1, 2019, the United States imposed new tariffs at 15% on additional imports from China, including on our remaining hardware products manufactured there, but rolled back these new tariffs to 7.5% effective February 14, 2020. The tariffs negatively affect the gross margin on the impacted products, which only partially has been offset by adjustments to the prices of some of the affected products. Any future tariffs and actions related to items imported from China or elsewhere could also negatively impact our gross margin on the impacted products, and increases in our pricing as a result of tariffs would reduce the competitiveness of our products if our competitors do not make similar pricing adjustments. The impact of any increased or new tariffs or other trade restrictions could have a material adverse effect on our business, financial condition, and results of future operations.

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. For example, our products such as the 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 or economic conditions, and business closures and other actions taken to combat COVID-19.

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. 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.

Square Capital is subject to additional risks relating to the availability of capital, seller payments, availability and structure of its bank partnership, expansion of its products, regulatory obligations, and general macroeconomic conditions.

Square Capital, which includes our wholly owned subsidiary Square Capital, LLC, is subject to risks in addition to those described elsewhere in this Quarterly Report on Form 10-Q. Maintaining and growing Square Capital is dependent on institutional third-party investors purchasing the eligible business loans originated by our bank partner. If such third parties fail to continue to purchase such business loans or reduce the amount of future loans they purchase, then our bank partner may need to reduce originations, or we would need to fund the purchase of additional business loans from our own resources. We then may have to reduce the scale of Square Capital, which could have a direct impact on our ability to grow. Additionally, Square Capital has certain customary repurchase obligations in its loan purchase and servicing agreements with such institutional third party investors for breaches of certain eligibility representations and warranties. If third parties reduce the price they are willing to pay for these business loans or reduce the servicing fees they pay us in exchange for servicing the business loans on their behalf, then the financial performance of Square Capital would be harmed.

The business loans are generally unsecured obligations of our Square sellers who utilize Square Capital, and they are not guaranteed or insured in any way. Adverse changes in macroeconomic conditions or the credit quality of our Square sellers could cause some Square sellers who utilize Square Capital to cease operating or to experience a decline in their payment processing volume, thereby rendering them unable to make payment on the business loan and/or extend the repayment period beyond the contractual repayment terms on the business loan. To the extent a seller breaches a contractual obligation, such as the requirement to make minimum payments or other breach, the seller would be liable for an accelerated business loan repayment, where Square Capital's recourse is to the business and not to any individual or other asset. In addition, because the servicing fees we receive from third party investors depend on the collectability of the business loans, if there is an increase in Square sellers who utilize Square Capital who are unable to make repayment of business loans, we will be unable to collect our entire servicing fee for such loans. While our exposure to loans that we sell to third parties is more limited, we expect that the impact of COVID-19 on loan performance will increase risk loss for our owned loan portfolio.

In addition, adverse changes in macroeconomic conditions as a result of the COVID-19 pandemic have led to a decrease in the number of sellers eligible for Square Capital facilitated business loans and strained our ability to correctly identify such sellers on behalf of our bank partner or manage the risk of non-payment or fraud as servicer of the business loans. As a result, Square Capital ceased to facilitate new business loans, with the exception of PPP loans, during the second quarter. Square Capital recently resumed offering its regular business loans under stricter eligibility criteria, but it remains uncertain at what levels Square Capital will facilitate such business loans. If we fail to correctly predict the likelihood of timely repayment or correctly price such business loans, our business may be materially and adversely affected.

We have partnered, on a non-exclusive basis, with a Utah-chartered, member FDIC industrial bank to originate the loans. Such bank may offer products that compete with ours. The bank is subject to oversight both by the FDIC and the State of Utah. Due to the fact that we are a service-provider to our bank partner, we are subject to audit standards for third-party vendors in accordance with FDIC guidance and examinations by the FDIC. There has been, and may continue to be, regulatory interest in and/or litigation challenging partnered lending arrangements where a bank makes loans and then sells and assigns such loans to a non-bank entity that is engaged in assisting with the origination and servicing of the loan. If our bank partner 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 make business loans ourselves pursuant to state licensing requirements, Square Capital may need to enter into a new partnership with another qualified financial institution or pursue an alternative model for originating business loans, all of which may be time-consuming and costly and/or lead to a loss of institutional third-party investors willing to purchase such business loans, and as a result Square Capital may be materially and adversely affected.

We intend to continue to explore other products, models, and structures for Square Capital, including forming a Utah industrial bank and other forms of credit and loan products. On March 17, 2020, the Board of Directors of the FDIC approved an application for Federal deposit insurance for Square Financial Services, Inc., an industrial bank that Square Capital is in the process of establishing but is not yet operational. Some of those models or structures may require, or be deemed to require, additional data, procedures, partnerships, licenses, regulatory approvals, or capabilities that we have not yet obtained or developed. The licenses required in connection with our lending program and other activities related to the Square Capital program subject us to reporting requirements, bonding requirements, and inspection by applicable state regulatory agencies. In addition, while there can be no assurances that the industrial bank will become operational, the FDIC's approval is contingent on Square entering into agreements that require it to provide financial support to the industrial bank and impose certain other obligations on Square once the industrial bank is operational. Jack Dorsey, who is considered Square's controlling shareholder in this context, also agreed to cause Square to perform under these agreements. Should we fail to expand and evolve Square Capital in a successful manner, or should these new products, 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 Square Capital 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, licensing schemes, and industry standards in the United States and in other countries in which we operate. These laws, regulations, and standards govern numerous areas that are important to our business, and 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), cryptocurrency, trading in shares and fractional shares, consumer protection, anti-money laundering, escheatment, international sanctions regimes, data privacy and security, 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, regulations, and standards are enforced by multiple authorities and governing bodies in the United States, including federal agencies, such as the FDIC, self-regulatory organizations, and numerous state and local agencies. Outside of the United States, we are subject to additional regulators. As we expand into new jurisdictions, or expand our product offerings in existing jurisdictions, the number of foreign regulations and regulators governing our business will expand as well. In addition, as our business and products continue to develop and expand, we may become subject to additional rules, regulations, and industry standards. We may not always be able to accurately predict the scope or applicability of certain regulations to our business, particularly as we expand into new areas of operations, which could have a significant negative effect on our existing business and our ability to pursue future plans.

Laws, regulations, and standards are subject to changes and evolving interpretations and application, including by means of legislative changes and/or executive orders, and it can be difficult to predict how they may be applied to our business and the way we conduct our operations, particularly as we introduce new products and services and expand into new jurisdictions.

For example, Cash App includes a feature that permits our customers to buy and sell bitcoin. Bitcoin is not considered legal tender or backed by any government, and it has experienced price volatility, technological glitches, security compromises, and various law enforcement and regulatory interventions. The regulation of cryptocurrency and crypto platforms is still an evolving area, and it is possible that we could become subject to additional regulations. If we fail to comply with regulations or prohibitions applicable to us, we could face regulatory or other enforcement actions and potential fines and other consequences. Further, we might not be able to continue operating the feature, at least in current form, which could cause the price of our Class A common stock to decrease.

Although we have a compliance program focused on the laws, rules, and regulations applicable to our business, we may still be subject to fines or other penalties in one or more jurisdictions levied by regulators, including state Attorneys General and private plaintiffs who may be acting as private attorneys general pursuant to various applicable laws, 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, increased licensure requirements, 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.

Further, from time to time, we may leverage third parties to help conduct our businesses in the U.S. or abroad. We and our third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities and may be held liable for any corrupt or other illegal activities of these third-party business partners and intermediaries, our employees, partners, and agents, even if we do not explicitly authorize such activities. While we have policies and procedures to address compliance with such laws, we cannot assure you that our employees and agents will not take actions in violation of our policies and applicable law, for which we may be ultimately held responsible.

Our business is subject to complex and evolving regulations and oversight related to privacy and data protection.

We are subject to laws and regulations relating to the collection, use, retention, privacy, security, and transfer of information, including personally identifiable information of our employees and customers. As with the other laws and regulations noted above, these laws and regulations may change or 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. For example, the European Union's General Data Protection Regulation (GDPR) imposes more stringent data privacy and data protection requirements than prior EU data protection law and provides for greater penalties for noncompliance of up to the greater of 4% of worldwide annual revenue or €20 million. To address data transfers from the EU to other jurisdictions, we in certain cases utilize model contracts approved by the EU Commission. On July 16, 2020, the Court of Justice of the European Union (CJEU) issued a decision that may impose additional obligations on companies when relying on those model contracts, in addition to invalidating another method that some companies relied on for transferring personal data from the European Economic Area (EEA) to the United States, the EU-U.S. Privacy Shield. This CJEU decision may result in different EEA data protection regulators applying differing standards for the transfer of personal data from the EEA to the United States, and even require ad hoc verification of measures taken with respect to data flows. As a result of this CJEU decision, we may be required to take additional steps to legitimize impacted personal data transfers. This could result in increased costs of compliance and limitations on our customers and us. More generally, we may find it necessary or desirable to modify our data handling practices, and this CJEU decision or other legal challenges relating to cross-border data transfer may serve as a basis for our personal data handling practices, or those of our customers and vendors, to be challenged and may otherwise adversely impact our business, financial condition and operating results. In the United Kingdom, although a Data Protection Act substantially implements the GDPR, uncertainty remains regarding how data transfers to and from the U.K. will be regulated. The U.K.'s exit from the EU has created uncertainty with regard to the regulation of data protection in the U.K. and data transfers between the U.K., the EU, and other jurisdictions and could require us to make additional changes to the way we conduct our business and transmit data between the U.S., the U.K., the EU, and the rest of the world. In addition, some countries are considering or have enacted legislation requiring local storage and processing of data that could increase the cost and complexity of delivering our services.

Likewise, the California Consumer Privacy Act of 2018 (CCPA) became effective on January 1, 2020. The CCPA imposes stringent data privacy and data protection requirements for the data of California residents, and provides for penalties for noncompliance of up to $7,500 per violation. It remains unclear how various provisions of the CCPA will be interpreted and enforced. More generally, data privacy and security continues to be a rapidly evolving area, and further legislative activity has arisen and will likely continue to arise in the U.S., the EU, and other jurisdictions. For example, a California ballot initiative that builds upon CCPA has been certified by the California Secretary of State to appear on the ballot in the November 2020 election, other states in the U.S. have proposed or enacted laws regarding privacy and data protection that contain obligations similar to the CCPA, and the federal government is contemplating federal privacy legislation. In addition, laws and regulations directed at privacy and data security, and those that have been applied in those areas, may be subject to evolving interpretations or applications. The effects of recently proposed or enacted legislation, including CCPA, potentially are far-reaching and may require us to modify our data processing practices and policies and to incur substantial costs and expenses in an effort to comply.

We have incurred, and may continue to incur, significant expenses to comply with evolving privacy and security standards and protocols imposed by law, regulation, industry standards, shifting consumer expectations, or contractual obligations. In particular, with laws and regulations such as the GDPR in the EU and the CCPA in the U.S. imposing new and relatively burdensome obligations, and with substantial uncertainty over the interpretation and application of these and other laws and regulations, we may face challenges in addressing their requirements and making necessary changes to our policies and practices, and we may incur significant costs and expenses in an effort to do so. Any failure, real or perceived, by us to comply with our privacy, data protection, or information security policies, changing consumer expectations, or with any evolving regulatory requirements, industry standards, or contractual obligations could cause our customers to reduce their use of our products and services, disrupt our supply chain or third party vendor or developer partnerships, and materially and adversely affect our business.

As a licensed money transmitter, we are subject to important obligations and restrictions.

We have obtained licenses to operate as a money transmitter (or as other financial services institutions) in the United States and in the states where this is required, as well as in some non-U.S. jurisdictions, including the U.K, Ireland, and Australia. 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 subject to fines and other penalties by 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 investigations and resulting liability, including governmental fines, restrictions on our business, or other sanctions, and we could be forced to cease conducting business in 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.

Our subsidiary Cash App Investing is a broker-dealer registered with the SEC and a member of FINRA, and therefore is subject to extensive regulation and scrutiny.

Our subsidiary Cash App Investing facilitates transactions in shares and fractionalized shares of publicly-traded stock by users of our Cash App through a third-party clearing and carrying broker, DriveWealth LLC ("DriveWealth"). Cash App Investing is registered with the SEC as a broker-dealer under the Exchange Act and is a member of FINRA. Therefore Cash App Investing is subject to regulation, examination, and supervision by the SEC and FINRA. The regulations applicable to broker-dealers cover all aspects of the securities business, including sales practices, use and safekeeping of clients' funds and securities, capital adequacy, record-keeping, and the conduct and qualification of officers, employees, and independent contractors. As part of the regulatory process, broker-dealers are subject to periodic examinations by their regulators, the purpose of which is to determine compliance with securities laws and regulations, and from time to time may be subject to additional routine and for-cause examinations. It is not uncommon for regulators to assert, upon completion of an examination, that the broker-dealer being examined has violated certain of these rules and regulations. Depending on the nature and extent of the violations, the broker-dealer may be required to pay a fine and/or be subject to other forms of disciplinary action. Additionally, the adverse publicity arising from the imposition of sanctions could harm our reputation and cause us to lose existing customers or fail to gain new customers.

The SEC, FINRA, and state regulators have the authority to bring administrative or judicial proceedings against broker-dealers, whether arising out of examinations or otherwise, for violations of the securities laws. Administrative sanctions can include cease-and-desist orders, censure, fines, and disgorgement and may even result in the suspension or expulsion of the firm from the securities industry. Similar sanctions may be imposed upon officers, directors, representatives, and employees.

Cash App Investing has adopted, and regularly reviews and updates, various policies, controls, and procedures designed for compliance with Cash App Investing's obligations. However, appropriately addressing these issues is complex and difficult and our reputation could be damaged if we fail, or appear to fail, to appropriately address them. Failure to adhere to these policies and procedures may also result in regulatory sanctions or litigation against us. Cash App Investing also relies on various third parties, including DriveWealth, to provide services, including managing and executing customer orders, and failure of these third parties to adequately perform these services may negatively impact customer experience, product performance, and our reputation and may also result in regulatory sanctions or litigation against us or Cash App Investing.

In the event of any regulatory action or scrutiny, we or Cash App Investing could also be required to make changes to our business practices or compliance programs. In addition, any perceived or actual breach of compliance by Cash App Investing with respect to applicable laws, rules, and regulations could have a significant impact on our reputation, 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, including litigation against us and potential liability.

Cash App Investing is subject to net capital and other regulatory capital requirements; failure to comply with these rules could harm our business.

Our subsidiary Cash App Investing is subject to the net capital requirements of the SEC and FINRA. These requirements typically specify the minimum level of net capital a broker-dealer must maintain and also mandate that a significant part of its assets be kept in relatively liquid form. Failure to maintain the required net capital may subject a firm to limitation of its activities, including suspension or revocation of its registration by the SEC and suspension or expulsion by FINRA, and ultimately may require its liquidation. Currently, Cash App Investing has relatively low net capital requirements, because it does not hold customer funds or securities, but instead facilitates the transmission and delivery of those funds on behalf of customers to DriveWealth or back to the applicable customer. However, a change in the net capital rules, a change in how Cash App Investing handles or holds customer assets, or the imposition of new rules affecting the scope, coverage, calculation, or amount of net capital requirements could have adverse effects. Finally, because Cash App Investing is subject to such net capital requirements, we may be required to inject additional capital into Cash App Investing from time to time and as such, we may have liability and/or our larger business may be affected by any of these outcomes.

It is possible that FINRA will require changes to our business practices based on our ownership of Cash App Investing, which could impose additional costs or disrupt our business.

In certain cases, FINRA has required unregistered affiliates of broker-dealers to comply with additional regulatory requirements, including, among others, handling all securities or other financial transactions through the affiliated broker-dealer or conforming all marketing and advertising materials to the requirements applicable to broker-dealers. We do not currently believe that these types of requirements apply to any aspect of our business other than the securities transactions facilitated through the Cash App. It is possible that, in the future, FINRA could require us to comply with additional regulations in the conduct of other activities (i.e., beyond the securities transactions made through the Cash App). If that were to occur, it could require significant changes to our business practices. These and other changes would impose significantly greater costs on us and disrupt existing practices in ways that could negatively affect our overarching business and profitability.

We are subject to risks related to litigation, including intellectual property claims, government investigations or inquiries, and regulatory matters or disputes.

We may be, and have been, subject to claims, lawsuits (including class actions and individual lawsuits), government or regulatory investigations, subpoenas, inquiries or audits, and other proceedings. 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, and we expect that we will continue to face additional legal disputes as we continue to grow and expand. We also receive significant media attention, which could result in increased litigation or other legal or regulatory reviews and proceedings.

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, including those 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. Evolving case law and legislation over worker classification, including California Assembly Bill 5, increases litigation in this area and may have ramifications as to how we operate certain segments of our business and our engagement with independent contractors. For example, a determination in, or settlement of, any legal proceeding involving us or others that determines that workers of the type we maintain are independent contractors instead are employees could harm our business, financial condition, and results of operations, including, but not necessarily limited to, as a result of monetary exposure arising from or relating to penalties, defense costs, taxes, wages, and other matters, as well as potential costs of such workers unionizing or attempting to unionize.

The scope, outcome, and impact of claims, lawsuits, government or regulatory investigations, subpoenas, inquiries or audits, and other proceedings to which we are subject cannot be predicted with certainty. Regardless of the outcome, such investigations and 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. We may also be accused of having, or be found to have, infringed or violated third-party intellectual property rights. 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, or we may have to change or cease certain practices. 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 to 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 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, 2020, we had 753 issued patents in force in the United States and abroad and 523 filed patent applications pending in the United States and abroad, though there can be no assurance that any or all of these pending 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. Additionally, our intellectual property rights and other confidential business information are subject to risks of compromise or unauthorized disclosure if our security measures or those of our third-party service providers are unable to prevent cyber-attacks. 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, and our existing credit facility contains, and any future debt financing may contain, covenants that impact the operation of our business and pursuit of business opportunities.

We have funded our operations since inception primarily through debt and equity financings, bank credit facilities, and finance lease arrangements. While we believe that our existing cash and cash equivalents, marketable debt securities, and availability under our line of credit are sufficient to meet our working capital needs and planned capital expenditures, and service our debt, there is no guarantee that this will continue to be true in the future. In the future, we may require additional capital to respond to business opportunities, refinancing needs, business and financial challenges, regulatory surety bond requirements, acquisitions, or unforeseen circumstances and may decide to engage in equity, equity-linked, or debt financings or enter into additional credit facilities for other reasons. We may not be able to secure any such additional financing or refinancing on favorable terms, in a timely manner, or at all. 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.

Our credit facility contains affirmative and negative covenants, including customary limitations on the incurrence of certain indebtedness and liens, restrictions on certain inter-company transactions, and limitations on dividends and stock repurchases. 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 operate our business, obtain additional capital, and pursue business opportunities, including potential acquisitions. 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 our existing credit facility and any future financing agreements into which we may enter. If not waived, these defaults could cause indebtedness outstanding under our credit facility, our other outstanding indebtedness, including our 2022 Notes, 2023 Notes, and 2025 Notes (collectively, the Notes) 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 or other securities convertible into equity, including convertible debt securities, our existing stockholders could suffer dilution in their percentage ownership of our company, and any such securities we issue could have rights, preferences, and privileges senior to those of holders of our Class A common stock.

Servicing our Notes may require a significant amount of cash, and we may not have sufficient cash or the ability to raise the funds necessary to settle conversions of the Notes in cash, repay the Notes at maturity, or repurchase the Notes as required following a fundamental change.

As of June 30, 2020, we had $186.3 million outstanding aggregate principal amount of 2022 Notes, and $862.5 million aggregate principal amount of 2023 Notes, and $1.0 billion outstanding aggregate principal amount of 2025 Notes.

Prior to December 1, 2021, in the case of the 2022 Notes, February 15, 2023, in the case of the 2023 Notes, and December 1, 2024, in the case of the 2025 Notes, the applicable Notes are convertible at the option of the holders only under certain conditions or upon occurrence of certain events. Because the last reported sale price of our Class A common stock exceeded 130% of the conversion price for the 2022 Notes for the relevant period in the calendar quarter ending June 30, 2020, the 2022 Notes are convertible at the option of the holders thereof during the calendar quarter ending September 30, 2020. Whether the Notes of any series will be convertible following such calendar quarter will depend on the satisfaction of this condition or another conversion condition in the future. If holders of the Notes of a series elect to convert such Notes, unless we elect to deliver solely shares of our Class A common stock to settle such conversion, we will be required to make cash payments in respect of the Notes being converted. Effective October 2018, we revised our prior stated policy of settling conversions of the 2022 Notes and 2023 Notes through combination settlement with a specified dollar amount of $1,000 per $1,000 principal amount of Notes. We currently expect to settle future conversions of Notes of any series solely in shares of our Class A common stock, which has the effect of including the shares of Class A common stock issuable upon conversion of the Notes of such series in our diluted earnings per share to the extent such shares are not anti-dilutive. We will reevaluate this policy from time to time as conversion notices are received from holders of the Notes.

In addition, holders of each series of Notes also have the right to require us to repurchase all or a portion of their Notes of such series upon the occurrence of a fundamental change (as defined in the applicable indenture governing the Notes) at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest. If the Notes of any series have not previously been converted or repurchased, we will be required to repay such Notes in cash at maturity.

Our ability to make required cash payments in connection with conversions of the Notes, repurchase the Notes in the event of a fundamental change, or to repay or refinance the Notes at maturity will depend on market conditions and our future performance, which is subject to economic, financial, competitive, and other factors beyond our control. We also may not use the cash proceeds we raised through the issuance of the Notes in an optimally productive and profitable manner. Since inception, our business has generated net losses, and we may continue to incur significant losses. As a result, we may not have enough available cash or be able to obtain financing at the time we are required to repurchase or repay the Notes or pay cash with respect to Notes being converted.

In addition, our ability to repurchase or to pay cash upon conversion or at maturity of the Notes may be limited by law or regulatory authority. Our failure to repurchase Notes following a fundamental change or to pay cash upon conversion (unless we elect to deliver solely shares of our Class A common stock to settle such conversion) or at maturity of the Notes as required by the applicable indenture would constitute a default under such indenture. A default under the applicable indenture or the fundamental change itself could also lead to a default under our credit facility, our other outstanding indebtedness, or agreements governing our future indebtedness and could have a material adverse effect on our business, results of operations, and financial condition. If the payment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Notes or to pay cash upon conversion or at maturity of the Notes.

We are subject to counterparty risk with respect to the convertible note hedge transactions.

In connection with the issuance of the 2022 Notes, the 2023 Notes, and the 2025 Notes, we entered into convertible note hedge transactions with certain financial institutions, which we refer to as the "option counterparties." The option counterparties are financial institutions or affiliates of financial institutions, and we will be subject to the risk that one or more of such option counterparties may default under the convertible note hedge transactions. Our exposure to the credit risk of the option counterparties will not be secured by any collateral. If any option counterparty becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at that time under the convertible note hedge transaction. Our exposure will depend on many factors but, generally, the increase in our exposure will be correlated to the increase in our Class A common stock market price and in the volatility of the market price of our Class A common stock. In addition, upon a default by any option counterparty, we may suffer adverse tax consequences and dilution with respect to our Class A common stock. We can provide no assurance as to the financial stability or viability of any option counterparty.

Our reported financial statements and 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 Financial Accounting Standards Board (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 statements and results and could materially and adversely affect the transactions completed before the announcement of a change. Additionally, the adoption of new or revised accounting principles may require that we make significant changes to our systems, processes, and controls.

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

As we continue to expand our global operations, we become more exposed to the effects of fluctuations in currency exchange rates. Our contracts are denominated primarily in U.S. dollars, and therefore the majority of our revenue is not subject to foreign currency risk. However, fluctuations in exchange rates of the U.S. dollar against foreign currencies could adversely affect our business, results of operations, and financial condition. We incur expenses for employee compensation and other operating expenses at our non-U.S. locations in the local currency. Fluctuations in the exchange rates between the

U.S. dollar and other currencies could result in the dollar equivalent of such expenses being higher. This could have a negative impact on our reported results of operations. From time to time, we may enter into forward contracts, options, and/or foreign exchange swaps related to specific transaction exposures that arise in the normal course of our business, though we are not currently a party to any such hedging transactions. These and other such hedging activities may not eliminate our exposure to foreign exchange fluctuations. Moreover, the use of hedging instruments may introduce additional risks if we are unable to structure effective hedges with such instruments.

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 66.1% of the voting power of our combined outstanding capital stock as of June 30, 2020. Our executive officers and directors and their affiliates held approximately 68.6% of the voting power of our combined outstanding capital stock as of June 30, 2020. 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 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 Class B stockholders retain shares of Class B common stock constituting as little as 10% of all outstanding shares of our Class A and Class B common stock combined, they will continue to control a majority of the combined voting power of our outstanding capital stock.

If we are unable to maintain effective disclosure controls and internal controls over financial reporting, 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 continuing to develop and refine our disclosure controls and improve our internal controls over financial reporting. We have expended, and anticipate that we will continue to expend, significant resources in order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting.

Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business. Further, to the extent we acquire other businesses, the acquired company may not have a sufficiently robust system of internal controls and we may discover deficiencies. If we identify material weaknesses in our disclosure controls or internal control over financial reporting in the future, 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. In the past, we have identified significant deficiencies in our internal control over financial reporting and have taken steps to remediate such deficiencies. However, such efforts may not be effective or prevent any future deficiency in our internal controls. Any failure to maintain effective disclosure controls and internal control over financial reporting could have a material and adverse effect on our business and operating results and cause a decline in the market price of our Class A common stock.

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;
- general economic, regulatory, and market conditions, in particular conditions that adversely affect our sellers' business and the amount of transactions they are processing;
- public health crises and related measures to protect the public health, such as the COVID-19 pandemic;
- 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;
- issuance of shares of our Class A common stock, whether in connection with an acquisition or upon conversion of some or all of our outstanding Notes;
- reports by securities or industry analysts that are interpreted either negatively or positively by investors, 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;
- public 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;
- actual or perceived data security incidents that we or our service providers may suffer;
- actual or anticipated developments in our business, our competitors' businesses, or the competitive landscape generally;
- seasonality in our business or our sellers' business, including seasonal fluctuations in the amount of transactions our sellers are processing; and
- from time to time we make investments in equity that is, or may become, publicly held, and we may experience volatility due to changes in the market prices of such equity investments.

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.

The convertible note hedge and warrant transactions may affect the value of our Class A common stock.

In connection with the issuance of the 2022 Notes, the 2023 Notes, and the 2025 Notes, we entered into convertible note hedge transactions with the option counterparties. We also entered into warrant transactions with the option counterparties pursuant to which we sold warrants for the purchase of our Class A common stock. The convertible note hedge transactions are expected generally to reduce the potential dilution to our Class A common stock upon any conversion of the Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted Notes, as the case may be. The warrant transactions would separately have a dilutive effect to the extent that the market price per share of our Class A common stock exceeds the strike price of any warrants unless, subject to the terms of the warrant transactions, we elect to cash settle the warrants.

From time to time, the option counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivative transactions with respect to our Class A common stock and/or purchasing or selling our Class A common stock or other securities of ours in secondary market transactions prior to the maturity of the Notes. This activity could cause or avoid an increase or a decrease in the market price 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 that 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 dual-class common stock structure provides our holders of Class B common stock with the ability to significantly influence the outcome of matters requiring stockholder approval, even if they own significantly less than a majority of the shares of our outstanding shares of common stock. Further, 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.

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. Our ability to pay dividends is restricted by the terms of our revolving credit facility and is also subject to limitations imposed by certain financial regulations.

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

During the three months ended June 30, 2020, we issued a total of 250,957 shares of our Class A common stock in connection with the acquisition of a technology company, pursuant to exemptions from registration provided by Section 4(a)(2).

Purchases of Equity Securities by the Company and Affiliated Purchasers

Period	Total number of Shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs
April 1 to April 30	15,029(i)	$ 46.81	—	—
May 1 to May 31	3,772(i)	$ 63.00		
June 1 to June 30	724,316(ii)	—	—	—
Total	743,117	$ 50.06(iii)	—	—

(i) Represents shares that have been withheld by the Company to satisfy its tax withholding and remittance obligations in connection with the vesting of restricted stock awards.

(ii) The Company exercised a pro-rata portion of the 2022 convertible note hedges (described in Note 12, *Indebtedness*, of the Notes to the Condensed Consolidated Financial Statements) to offset the shares of the Company's common stock issued to settle the conversion of the 2022 Notes. The note hedges were net shares settled and the Company received 724,316 shares of the Company's common stock from the counterparties in June of 2020.

(iii) Excludes the shares received through the exercise of the note hedges.

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 incorporated by reference or are filed with this Quarterly Report on Form 10-Q (numbered in accordance with Item 601 of Regulation S-K).

EXHIBIT INDEX

Exhibit Number	Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
10.1	Revolving Credit Agreement, dated as of May 1, 2020, by and among Square, Inc., as borrower, the lenders party thereto, and Goldman Sachs Bank USA, as administrative agent.	8-K	001-37622	10.1	May 6, 2020
10.2	First Amendment to Credit Agreement, dated as of May 28, 2020, by and among Square, Inc., the lenders party thereto, and Goldman Sachs Bank USA, as administrative agent.	8-K	001-37622	10.1	June 3, 2020
10.3	Paycheck Protection Program Liquidity Facility Letter of Agreement, dated as of June 2, 2020.	8-K	001-37622	10.2	June 3, 2020
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	The following financial statements from the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, formatted in Inline XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive Loss, (iv) Condensed Consolidated Statements of Cash Flows, (v) Condensed Consolidated Statements of Stockholders’ Equity, and (vi) Notes to Condensed Consolidated Financial Statements.				
104	Cover Page Interactive Data File, formatted in Inline XBRL (included in Exhibit 101)				

† 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.

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 5, 2020	By:	/s/ Jack Dorsey
			Jack Dorsey
			President, Chief Executive Officer, and Chairman
			(Principal Executive Officer)
		By:	/s/ Amrita Ahuja
			Amrita Ahuja
			Chief Financial Officer
			(Principal Financial Officer)

Exhibit 31.1

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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) 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 5, 2020

By: /s/ Jack Dorsey
Jack Dorsey
President, Chief Executive Officer, and Chairman

Exhibit 31.2

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, Amrita Ahuja, 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) 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 5, 2020

By: /s/ Amrita Ahuja
Amrita Ahuja
Chief Financial Officer

Exhibit 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**

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, 2020 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 5, 2020

By: /s/ Jack Dorsey
Jack Dorsey
President, Chief Executive Officer, and Chairman

I, Amrita Ahuja, 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, 2020 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 5, 2020

By: /s/ Amrita Ahuja
Amrita Ahuja
Chief Financial Officer