

approach to risk management that enables us to approve sellers who may have been denied elsewhere, while keeping our risk and fraud losses low.

### ***Payments and POS services***

Our payments and POS services include hardware and software to accept payments, streamline operations, and analyze business information. Square Register, our free POS app, combines with our hardware to turn a mobile device into a powerful POS solution. Our mobile payments and POS services transform the checkout process and advance digital and mobile commerce by untethering sales from long lines and antiquated cash registers. Sellers can also use our services such as Square Analytics and Invoices directly from a mobile device. We regularly add advanced software features for our POS solution for specific types of sellers. We act as the merchant of record for our sellers, which puts us in their shoes with respect to card networks and puts the risk for refunds and chargebacks on us. Because we work directly with payment card networks and banks, sellers do not need to manage the complex systems, rules, and requirements of the payments industry. The benefits to our sellers include fast, easy, and inclusive sign-up; simplicity; affordability; transparent pricing; fast access to funds; and the ability to take payments anywhere, anytime. Buyers benefit from these services by being able to easily pay anyone, anywhere with a payment card or mobile device.

Unburdened by legacy systems, we create technology that makes payments faster and more efficient. In November 2013, we launched Square Cash, an easy way for anyone to send and receive money electronically via email or a mobile app. Individuals and businesses can sign up for a Square Cash account using just a debit card and an email address or phone number. Square Cash started with peer-to-peer payments, which we offer to individuals for free. Square Cash can also help businesses eliminate paper checks and process more of their payments electronically by lowering the cost of payment processing through the use of debit cards. Since launch, people have sent over one billion dollars through Square Cash.

### ***Financial services***

Just as sellers face many challenges with the traditional system of accepting payment cards, they also face issues accessing and deploying funds to run and grow their businesses. We have applied the same capabilities and insights we used to develop our payments and POS services to address this need as well. We believe our financial services demonstrate the strength of our strategy, execution, and opportunity.

Square Capital provides merchant cash advances to prequalified sellers. We make it easy for sellers to use our service by proactively reaching out to them with an offer of an advance based on their payment processing history. The terms are straightforward, sellers get their funds quickly (often the next business day), and in return, they agree to make payments equal to a percentage of the payment volume we process for them up to a fixed amount. We receive these payments seamlessly through each card transaction we process for them up to a fixed amount. The service has a strong recurring nature, with nearly 90% of sellers who have been offered a second Square Capital

## **Table of Contents**

advance choosing to accept it. We currently fund a significant majority of these advances from arrangements with third parties that commit to purchase the future receivables related to these advances. This funding significantly increases the speed with which we can scale Square Capital and allows us to mitigate our balance sheet risk.

Payroll is another area where our payments business provides the foundation for the type of opportunity we have realized with Square Capital. Like payments and business financing, payroll services exist within a complex and highly regulated industry. Payroll is one of the largest operating expenses for small businesses. In 2010, small businesses paid 42% of private sector payroll, according to the U.S. Small Business Administration's March 2014 report. Square Payroll is an affordable, easy-to-use payroll service for sellers, optimized for those with hourly employees. It works seamlessly with Square Register to automatically track employee hours worked. This reduces complexity, saving time and money for our sellers. We recently introduced Square Payroll in California, and we plan to expand it to additional states.