

	Year Ended December 31,			Nine Months Ended September 30,	
	2012	2013	2014	2014	2015
	(in thousands)			(unaudited)	
Net loss	\$ (85,199)	\$ (104,493)	\$ (154,093)	\$ (117,021)	\$ (131,528)
Starbucks transaction revenue	(9,471)	(114,456)	(123,024)	(86,508)	(95,199)
Starbucks transaction costs	12,547	139,803	150,955	107,889	118,542
Share-based compensation expense	8,114	14,658	36,100	24,653	49,486
Depreciation and amortization	3,579	8,272	18,586	12,843	18,526
Interest (income) and expense	5	(12)	1,058	615	995
Other (income) and expense	(167)	(950)	1,104	737	1,390
Provision (benefit) for income taxes	—	513	1,440	(257)	2,502
Loss on sale of property and equipment	13	2,705	133	—	240
Impairment of intangible assets	—	2,430	—	—	—
Adjusted EBITDA	<u>\$ (70,579)</u>	<u>\$ (51,530)</u>	<u>\$ (67,741)</u>	<u>\$ (57,049)</u>	<u>\$ (35,046)</u>

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A NOTE FROM JACK

We started Square because Jim McKelvey, our co-founder and my second boss (after my mother!), couldn't accept a credit card for his art.

Setting up a merchant account was painful. The application process required lots of paperwork and took months. Banks asked for multiple credit checks and years of financial history. And when we were finally approved to accept cards, we couldn't decipher the rates we were paying. Then our first deposit was held. The entire process was exclusionary and unfair.

Square was born out of our experience. We built a working prototype: a mobile credit card reader that plugged into the audio jack of an iPhone and an app to enter an amount and process the payment. But it took us a year to convince the financial industry to allow us to make Square broadly available. The problem was not with the technology, but with the system.

We decided to make the entire system faster, more affordable, and more accessible. We gave the card reader and software away for free. We settled funds next business morning, which required us to advance money to sellers faster than we received it. We abstracted away the byzantine maze of interchange pricing to offer a simple fixed rate per swipe, which forced us to find ways to lower our costs immediately. Every one of those decisions carried existential risks that we trusted we'd be able to overcome with time. And we have!

Creating more inclusion and greater equality in the global economy is both a social need and a huge business opportunity. We've made it our purpose: empower people with beautifully simple tools that give them an advantage where they previously and unfairly had none. Our strategy to realize that purpose is straightforward: grow our payments service, extend payments into financial services, and extend payments into marketing services.

We've built one of the fairest and most efficient payments businesses in the world. We made it possible to accept card payments in less than five minutes. We priced all payment cards at the same flat rate and eliminated complicated fees. With Square Cash we've built a network that works for both individuals and businesses, online and offline. We believe sellers should be able to accept any type of payment, from cash to cards, Apple Pay to bitcoin, and whatever the future may bring, so they never miss a sale.

The strength of this business is more than the money it generates. The collective power of our millions of sellers sustains a scale from which we can build valuable financial services and marketing services, creating reinforcing and virtuous cycles back to our core business of payments. We've made getting capital as easy as tapping a button. We replaced pen and paper accounting with real-time insights into sales patterns and customer trends. Everything works together seamlessly to help our sellers make smart decisions for their businesses. When they succeed, we succeed.