

which enables individuals to initiate peer-to-peer cash transfers free of charge. While we expect sales and marketing expenses to increase as the scale of our business grows, we expect sales and marketing expenses to decline as a percentage of total net revenue over the long term. Over the short term, however, sales and marketing expenses as a percentage of total net revenue may demonstrate variability based on the timing and magnitude of marketing and customer acquisition initiatives.

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### **General and Administrative**

General and administrative expenses consist primarily of personnel-related expenses of our finance, legal, risk operations, human resources, and administrative personnel. General and administrative expenses also include costs related to customer support personnel and systems, as well as fees paid for professional services, including legal, tax, and accounting services. While we expect general and administrative expenses to increase in dollar amount to support our growth and costs of compliance associated with being a public company, we expect general and administrative expense to decline as a percentage of total net revenue.

### **Transaction and Advance Losses**

We are exposed to transaction losses due to chargebacks as a result of fraud or uncollectibility. Examples of transaction losses include chargebacks for unauthorized credit card use and inability to collect on disputes between buyers and sellers over the delivery of goods or services. The total of expected losses less the total amount of chargebacks reported constitutes our reserve for estimated losses incurred but not reported. We base our reserve estimates on prior chargeback history and current period data points indicative of transaction loss. We reflect additions to the reserve in current operating results, while we make charges to the reserve when we incur losses. We reflect recoveries in the reserve for transaction losses as collected.

We are not exposed to losses for the receivables that are sold to third parties in accordance with our arrangements with them. These third-party arrangements cover a majority of the dollar value of receivables outstanding. For the remaining receivables, we are generally exposed to losses related to uncollectibility, and similar to the accrued transaction loss, we establish losses for uncollectible receivables. We estimate the allowance based on prior default rates and seller-specific activity. We plan to continue to fund a substantial majority of future MCAs through third-party sales. Although advance losses associated with MCAs have been immaterial since Square Capital's launch in May 2014, we expect advance losses from MCAs to constitute a greater portion of advance losses in future periods to the extent adoption of this product increases over time.

The establishment of appropriate reserves is an inherently uncertain process, and ultimate losses may vary from the current estimates. We regularly update our reserve estimates as new facts become known and events occur that may affect the settlement or recovery of losses. For the period from January 1, 2012 through September 30, 2015, our transaction and advance losses accounted for approximately 0.1% of GPV. However, as we expand our seller base, offer new services, and expand to new geographies, we expect that our transaction and advance losses would be affected and will vary quarter to quarter.

### **Amortization of Acquired Customer Assets**

Amortization of acquired customer assets includes customer relationships, restaurant relationships, driver relationships, subscriber relationships, and partner relationships.

### **Impairment of Intangible Assets**

As certain acquired intangible assets were not expected to contribute directly or indirectly to our future cash flows and there were no other ways to monetize the technology, an impairment charge was recorded in December 2013.

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### **Interest and Other Income and Expense**

Interest income and expense consists primarily of interest expense for the drawn portion of our revolving credit facility. Other