

which have been prepared in accordance with GAAP. GAAP requires us to make certain estimates and judgments that affect the amounts reported in our financial statements. We base our estimates on historical experience, anticipated future trends and other assumptions we believe to be reasonable under the circumstances. Because these accounting policies require significant judgment, our actual results may differ materially from our estimates.

We believe the assumptions and estimates associated with revenue recognition, accrued transaction losses, provision for uncollectible receivables related to MCAs, marketing expenses, business combinations, goodwill and intangible assets, income taxes, share-based compensation, and common stock valuation to have the greatest potential effect on our consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates. For further information on all of our significant accounting policies, see Note 1 of the accompanying notes to our consolidated financial statements.

### **Revenue Recognition**

We recognize revenue when persuasive evidence of an arrangement exists, delivery of obligations to our customers has occurred, the related fees are fixed or determinable, and collectability is reasonably assured.

### **Transaction revenue**

Transaction revenue consists of fees a seller pays us to process their payment transactions and is recognized upon authorization of a transaction. Revenue is recognized net of refunds, which are reversals of transactions initiated by 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.

We charge our sellers a transaction fee for payment processing services equal to 2.75% of the total transaction amount for processing card-present transactions and for processing payments with Square Invoices, and 3.5% of the total transaction amount plus \$0.15 per transaction for processing manually entered (card-not-present) transactions. We also selectively offer custom pricing for larger sellers.

The gross transaction fees collected from sellers is recognized as revenue on a gross basis as we are the primary obligor to the seller and are responsible for processing the payment, have latitude in establishing pricing with respect to the

---

### **Table of Contents**

sellers and other terms of service, have sole discretion in selecting the third party to perform the settlement, and assume the credit risk for the transaction processed.

### **Starbucks transaction revenue**

We entered into an agreement with Starbucks to provide payment processing services for a portion of their retail locations. Starbucks transaction revenue consists of fees paid by Starbucks, net of refunds, to process their payment transactions and is recognized upon authorization of a transaction. As with our other transaction revenue, revenue is recognized on a gross basis as we are the primary obligor to Starbucks and are responsible for processing the payment, have latitude in establishing pricing, have sole discretion in selecting the third party to perform the settlement, and assume credit risk for the transaction processed.

### **Software and data product revenue**

Software and data product revenue primarily consists of revenue related to services provided through software offerings, or revenue derived through the use of underlying data:

- Software as a service includes Square Appointments and Square Customer Engagement. We provide the use of software for a fee which is recognized ratably over the relevant service period.
- Square Capital provides MCAs in exchange for a fixed amount of future receivables. For the cash advances in which we retain the right to receivables, the difference between the aggregate amount of the future receivables and the cash advance is recognized as revenue ratably as cash is collected. We also sell a portion of our future receivables related to our MCAs to third parties. We collect and recognize upfront fees, which are a fixed percentage of the cash advanced