

Table of Contents**Our Employees**

As of September 30, 2015, we had 1,282 full-time employees. We also engage temporary employees and consultants as needed to support our operations. None of our employees are either represented by a labor union or subject to a collective bargaining agreement. We have not experienced any work stoppages, and we consider our relations with our employees to be good.

Our Facilities

Our corporate headquarters, which include product development, sales, marketing, and business operations, are located in San Francisco, California. It consists of 333,570 square feet of space under a lease that expires in 2023. We also lease 43,689 square feet in New York, New York for a product development, sales, and business operations office under a lease that expires in 2025. We have offices in several other locations and believe our facilities are sufficient for our current needs.

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. Notably, we are currently involved in ongoing legal proceedings with Robert E. Morley and REM Holdings 3, LLC (REM). In two related proceedings, we are litigating disputes over certain patents and over Mr. Morley's early involvement in the business enterprise that became Square.

On December 1, 2010, we, along with our co-founder Jim McKelvey, filed a complaint (2010 Complaint) in the United States District Court for the Eastern District of Missouri (District Court), which, as amended, concerns the inventorship, ownership, implied license, non-infringement, invalidity, and unenforceability of three patents: U.S. Patent Nos. 7,918,394 ('394 Patent), 7,810,729 ('729 Patent), and 7,896,248 ('248 Patent). All three patents are in a single patent family directed to card reader technology. The patents, which the U.S. Patent and Trademark Office (PTO) granted in 2010 and 2011, name Mr. Morley as the sole inventor and REM as their assignee of rights. The 2010 Complaint sought to add Mr. McKelvey as a named inventor of those patents given his significant contributions to the claimed inventions. REM counterclaimed, alleging infringement by Square of the three patents, and we subsequently requested that the PTO reexamine those patents.

On January 17, 2012, the PTO issued a reexamination certificate invalidating the entirety of the '394 Patent. With the '394 Patent invalidated, two patents remained for consideration by the PTO: the '729 Patent and the '248 Patent. In April 2012, the PTO reexamination examiner closed prosecution on those two patents, rejecting all of the claims of the '729 Patent and 13 of the 20 claims of the '248 Patent as invalid in view of prior art. REM appealed the reexamination examiner's rejections on these two remaining patents to the Patent Office Trial and Appeals Board (PTAB), and we appealed to have the PTAB reject the remaining seven claims of the '248 Patent and to recognize additional grounds for rejection of the previously rejected '248 Patent and '729 Patent claims. In March 2014, the PTAB issued a decision in our favor, affirming the rejection of all claims of the '729 Patent, affirming the rejection of the 13 claims of the '248 Patent, and ruling that the reexamination examiner should also reject the remaining seven claims of the '248 Patent (having so ruled, the PTAB did not need to consider additional grounds for rejecting the '248 and '729 Patent claims). Following the PTAB's

Table of Contents

ruling, REM filed a response on the '248 Patent, substantially amending (i.e., adding new limitations to) five of the seven claims the PTAB had found to be unpatentable. On June 5, 2015, the PTO reexamination examiner, having considered the newly amended claims on remand, issued a preliminary determination that the new limitations allowed those five dependent claims to overcome the grounds for the PTAB's rejection ruling. The PTO reexamination examiner noted, however, that at least four of the five new claims were still unpatentable as claiming structure not supported in the specification, indefinite, or impermissibly broad. Additionally, on September 8, 2015, REM filed a notice of appeal at the Court of Appeals for the Federal Circuit challenging the PTAB's decision regarding the '729 Patent. Our arguments with respect to the remaining claims of the '248 Patent and the appeal by REM with