

disclosure of contingent assets and liabilities. Actual results could differ from the Company's estimates. To the extent that there are material differences between these estimates and actual results, the Company's financial condition or operating results will be materially affected. The Company bases its estimates on past experience and other assumptions that the Company believes are reasonable under the circumstances, and the Company evaluates these estimates on an ongoing basis.

Significant estimates, judgments and assumptions in these consolidated financial statements include those related to provisions for uncollectible receivables related to merchant cash advances ("MCAs"), provisions for transaction losses, useful lives for depreciation and amortization, valuation of acquired intangible assets, testing of goodwill impairment, valuation of long lived assets, acquisition accruals and preacquisition contingencies, valuation of deferred tax assets, provisions for uncertain tax positions, capitalization of software costs, and assumptions used for the recording of share-based compensation.

Unaudited Interim Financial Statements

The accompanying consolidated balance sheet as of September 30, 2015, the consolidated statements of operations, comprehensive loss and cash flows for the nine months ended September 30, 2014 and 2015, and the consolidated statement of stockholders' equity for the nine months ended September 30, 2015 and related note information are unaudited. The unaudited interim financial statements have been prepared on the same basis as the annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company's financial position and stockholders' equity as of September 30, 2015, and the results of operations, comprehensive loss and cash flows for the nine months ended September 30, 2014 and 2015. The financial data and the other information disclosed in these notes to the consolidated financial statements related to these nine-month periods are unaudited. The results of the nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for the year ending December 31, 2015 or for any other future period.

F-9

Table of Contents

Unaudited Pro Forma Balance Sheet

Upon the consummation of the initial public offering contemplated by the Company, all of the outstanding shares of convertible preferred stock will automatically convert into shares of Class B common stock. The September 30, 2015 unaudited pro forma consolidated balance sheet data has been prepared assuming the conversion of the convertible preferred stock outstanding into 135,252,809 shares of common stock at the then effective conversion rate.

Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery of obligations to its 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 the Company 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 the sellers. The Company acts as the merchant of record for its sellers, and works directly with payment card networks and banks so that its sellers do not need to manage the complex systems, rules, and requirements of the payments industry. As the merchant of record, Square is liable for settlement of the transactions the Company processes for its sellers.

The Company charges its 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. The Company also selectively offers custom pricing for larger sellers.

The gross transaction fees collected from sellers are recognized as revenue on a gross basis as the Company is the primary obligor to the seller and is responsible for processing the payment, has latitude in establishing pricing with respect to the sellers and other terms of service, has sole discretion in selecting the third party to perform the settlement, and assumes the credit risk for the transaction processed.

Starbucks transaction revenue