Settlements Receivable

Settlements receivable represents the amounts that are owed to the Company as a result of customer transactions that have not yet been paid to the Company by third-party payment processors. Settlements receivable are typically received within one to three business days of the consolidated balance sheet date. No valuation allowances have been established related to the receivable balances as the funds are owed from large, well-established financial institutions, and the Company has had no historical issues collecting the funds owed from these financial institutions.

Provision for Uncollectible Receivables Related to MCAs

Merchant cash advance receivable, net represents the aggregate amount of MCA-related receivables owed by sellers as of the consolidated balance sheet date, net of an allowance for potential uncollectible receivables. The Company is not exposed to losses for the receivables that are sold to third parties in accordance with the Company's arrangements with them. For the receivables retained by the Company, it is generally exposed to losses related to uncollectibility, and, similar to the accrued transaction loss, the Company establishes losses for uncollectible receivables. The Company estimates the allowance based on an assessment of various factors, including historical experience, merchants' current processing volume, and other factors that may affect the sellers' ability to make future payments on the receivables. Additions to the allowance are reflected in current operating results, while charges against the allowance are made when losses are recognized. These additions are classified within transaction and advance losses on the consolidated statements of operations. Recoveries are reflected as a reduction in the allowance for uncollectible receivables when the recovery occurs. No provision existed prior to 2014, as Square Capital launched in 2014 (see Note 3).

Capitalized Software

Costs of internal-use software are accounted for in accordance with FASB ASC Subtopic 350-40, *Internal-Use Software,* and FASB ASC Subtopic 350-50, *Intangibles—Website Development Costs*, which require the Company to expense software development costs as they are incurred during the preliminary project stage. Once the capitalization criteria as directed by ASC 350 have been met, external direct costs of materials and services consumed in developing or obtaining internal-use computer software and the payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use computer software, are capitalized. Capitalized costs are

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amortized over the estimated useful life of the software on a straight-line basis and included in product development costs on the consolidated statements of operations. The Company capitalized $0.9 million, $2.4 million, and $6.4 million of internally developed software during the years ended December 31, 2012, 2013, and 2014, respectively, and recognized $0.2 million, $0.5 million, and $2.7 million of amortization expense during the years ended December 31, 2012, 2013, and 2014, respectively. The Company capitalized $5.0 million and $3.4 million of internally developed software during the nine months ended September 30, 2014 and 2015, respectively, and recognized $1.4 million and $1.9 million of amortization expense during the nine months ended September 30, 2014 and 2015, respectively.

Deferred Reader Costs

The Company capitalizes the cost of its magnetic stripe readers on its consolidated balance sheets until they are shipped to a third-party distributor or an end-customer, at which point they are recorded as marketing expense on the consolidated statements of operations. The amount capitalized represents the cost of the readers, including packaging and shipping costs, held on-hand by the Company as of each consolidated balance sheet date. These amounts are included in other current assets on the consolidated balance sheets.

Property and Equipment

Property and equipment are recorded at historical cost less accumulated depreciation, which is computed on a straight-line basis over the asset's estimated useful life.

The estimated useful lives of property and equipment are described below: