UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2019

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ________ to ________

Commission File Number: 001-37622

Square, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**80-0429876**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

1455 Market Street, Suite 600
San Francisco, CA 94103
(Address of principal executive offices, including zip code)

(415) 375-3176
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, $0.0000001 par value per share	SQ	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of November 1, 2019, the number of shares of the registrant's Class A common stock outstanding was 347,159,861 and the number of shares of the registrant's Class B common stock outstanding was 82,521,616.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as "may," "will," "appears," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential," or "continue," or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans, or intentions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about our future financial performance, our anticipated growth and growth strategies and our ability to effectively manage that growth, our ability to invest in and develop our products and services to operate with changing technology, the expected benefits of our products to our customers and the impact of our products on our business, and our anticipated expansion and growth in Gross Payment Volume (GPV) and revenue, including our expectations regarding the Cash App ecosystem, our expectations regarding product launches, the expected impact of our recent acquisitions, the anticipated impact of our sale of Caviar, our plans with respect to patents and other intellectual property, our expectations regarding litigation and positions we have taken with respect to our tax classification, our expectations regarding share-based compensation, our expectations regarding the impacts of accounting guidance, our expectations regarding restricted cash, and the sufficiency of our cash and cash equivalents and cash generated from operations to meet our working capital and capital expenditure requirements.

We have based the forward-looking statements on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations, prospects, business strategy, and financial needs. The outcome of the events described in these forward-looking statements is subject to known and unknown risks, uncertainties, and other factors described in the section titled "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q. We operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. We cannot assure you that the results, events, and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events, or circumstances could differ materially from those described in the forward-looking statements.

All forward-looking statements are based on information and estimates available to the Company at the time of this Quarterly Report on Form 10-Q and are not guarantees of future performance. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law.

Part I—Financial Information

Item 1. Financial Statements

SQUARE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited) (In thousands, except share and per share data)

	September 30, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 612,048	$ 583,173
Short-term investments	557,656	540,991
Restricted cash	27,389	33,838
Settlements receivable	564,492	364,946
Customer funds	660,599	334,017
Loans held for sale	120,776	89,974
Other current assets	215,806	164,966
Total current assets	2,758,766	2,111,905
Property and equipment, net	134,034	142,402
Goodwill	265,974	261,705
Acquired intangible assets, net	72,793	77,102
Long-term investments	564,508	464,680
Restricted cash	14,433	15,836
Built-to-suit lease asset	—	149,000
Operating lease right-of-use assets	108,670	—
Other non-current assets	81,326	58,393
Total assets	$ 4,000,504	$ 3,281,023
Liabilities and Stockholders' Equity		
Current liabilities:		
Customers payable	$ 1,268,034	$ 749,215
Settlements payable	81,597	54,137
Accrued transaction losses	37,419	33,682
Accrued expenses	124,005	82,354
Operating lease liabilities, current	25,779	—
Other current liabilities	108,067	99,153
Total current liabilities	1,644,901	1,018,541
Long-term debt, net of current portion (Note 13)	928,869	899,695
Built-to-suit lease liability	—	149,000
Operating lease liabilities, non-current	106,457	—
Other non-current liabilities	70,483	93,286
Total liabilities	2,750,710	2,160,522
Commitments and contingencies (Note 19)		
Stockholders' equity:		
Preferred stock, $0.0000001 par value: 100,000,000 shares authorized at September 30, 2019 and December 31, 2018. None issued and outstanding at September 30, 2019 and December 31, 2018.	—	—
Class A common stock, $0.0000001 par value: 1,000,000,000 shares authorized at September 30, 2019 and December 31, 2018; 346,552,092 and 323,546,864 issued and outstanding at September 30, 2019 and December 31, 2018, respectively.	—	—
Class B common stock, $0.0000001 par value: 500,000,000 shares authorized at September 30, 2019 and December 31, 2018; 82,521,716 and 93,501,142 issued and outstanding at September 30, 2019 and December 31, 2018, respectively.	—	—
Additional paid-in capital	2,153,449	2,012,328
Accumulated other comprehensive loss	(2,387)	(6,053)
Accumulated deficit	(901,268)	(885,774)
Total stockholders' equity	1,249,794	1,120,501
Total liabilities and stockholders' equity	$ 4,000,504	$ 3,281,023

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

SQUARE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share data)

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Revenue:				
Transaction-based revenue	$ 816,622	$ 655,384	$ 2,248,894	$ 1,803,649
Subscription and services-based revenue	279,801	166,203	750,041	397,589
Hardware revenue	21,766	17,558	62,238	50,337
Bitcoin revenue	148,285	42,963	338,898	114,074
Total net revenue	1,266,474	882,108	3,400,071	2,365,649
Cost of revenue:				
Transaction-based costs	519,312	414,456	1,418,730	1,137,716
Subscription and services-based costs	63,352	47,078	183,994	117,230
Hardware costs	35,672	23,229	95,881	68,467
Bitcoin costs	146,167	42,408	333,801	112,876
Amortization of acquired technology	1,934	2,277	5,029	5,714
Total cost of revenue	766,437	529,448	2,037,435	1,442,003
Gross profit	500,037	352,660	1,362,636	923,646
Operating expenses:				
Product development	168,771	135,773	497,322	355,668
Sales and marketing	149,467	116,337	439,601	291,846
General and administrative	115,980	85,527	318,086	243,800
Transaction, loan and advance losses	32,722	23,596	94,827	63,603
Amortization of acquired customer assets	1,003	1,294	3,591	2,235
Total operating expenses	467,943	362,527	1,353,427	957,152
Operating income (loss)	32,094	(9,867)	9,209	(33,506)
Interest expense, net	5,632	7,224	15,456	12,806
Other expense (income), net	(5,541)	(37,800)	6,988	(37,908)
Income (loss) before income tax	32,003	20,709	(13,235)	(8,404)
Provision for income taxes	2,606	1,066	2,259	1,845
Net income (loss)	$ 29,397	$ 19,643	$ (15,494)	$ (10,249)
Net income (loss) per share:				
Basic	$ 0.07	$ 0.05	$ (0.04)	$ (0.03)
Diluted	$ 0.06	$ 0.04	$ (0.04)	$ (0.03)
Weighted-average shares used to compute net income (loss) per share				
Basic	427,124	409,690	423,239	402,980
Diluted	466,099	474,915	423,239	402,980

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

SQUARE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Net income (loss)	$ 29,397	$ 19,643	$ (15,494)	$ (10,249)
Net foreign currency translation adjustments	(2,812)	(946)	(2,285)	(3,341)
Net unrealized gain (loss) on revaluation of intercompany loans	—	(296)	$ 75	$ (89)
Net unrealized gain (loss) on marketable debt securities, net of tax	1,351	(647)	5,876	(1,597)
Total comprehensive income (loss)	$ 27,936	$ 17,754	$ (11,828)	$ (15,276)

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

SQUARE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2019	**2018**
Cash flows from operating activities:		
Net loss	$ (15,494)	$ (10,249)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	56,879	38,323
Non-cash interest and other expense	25,486	23,554
Loss on extinguishment of long-term debt	—	1,625
Share-based compensation	217,980	157,856
Replacement stock awards issued in connection with acquisition	—	899
Loss (gain) on revaluation of equity investment	16,467	(36,908)
Amortization of operating lease right-of-use assets and accretion of operating lease liabilities	21,950	—
Recovery of common stock in connection with indemnification settlement agreement	(789)	(2,745)
Transaction, loan and advance losses	94,827	63,603
Change in deferred income taxes	(1,054)	(563)
Changes in operating assets and liabilities:		
Settlements receivable	(215,594)	(579,769)
Customer funds	(202,718)	(156,162)
Purchase of loans held for sale	(1,596,394)	(1,139,142)
Sales and principal payments of loans held for sale	1,547,158	1,130,378
Customers payable	519,123	581,530
Settlements payable	27,460	88,486
Charge-offs to accrued transaction losses	(56,486)	(40,354)
Other assets and liabilities	(34,218)	(1,702)
Net cash provided by operating activities	404,583	118,660
Cash flows from investing activities:		
Purchase of marketable debt securities	(758,969)	(859,060)
Proceeds from maturities of marketable debt securities	325,682	128,603
Proceeds from sale of marketable debt securities	327,247	106,358
Purchase of marketable debt securities from customer funds	(237,640)	—
Proceeds from maturities of marketable debt securities from customer funds	115,200	—
Purchase of property and equipment	(45,826)	(37,173)
Payments for other investments	(2,000)	—
Purchase of intangible assets	—	(1,584)
Business combinations, net of cash acquired	(20,372)	(112,399)
Net cash used in investing activities	(296,678)	(775,255)
Cash flows from financing activities:		
Proceeds from issuance of convertible senior notes, net	—	855,663
Purchase of convertible senior note hedges	—	(172,586)
Proceeds from issuance of warrants	—	112,125
Principal payment on conversion of senior notes	—	(70,047)
Payments for tax withholding related to vesting of restricted stock units	(164,044)	(125,899)
Proceeds from the exercise of stock options, net	81,781	94,780
Other financing activities	(3,946)	(3,298)
Net cash provided by (used in) financing activities	(86,209)	690,738
Effect of foreign exchange rate on cash and cash equivalents	(673)	(4,154)
Net increase in cash, cash equivalents and restricted cash	21,023	29,989
Cash, cash equivalents and restricted cash, beginning of period	632,847	735,081
Cash, cash equivalents and restricted cash, end of period	$ 653,870	$ 765,070

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

SQUARE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
(In thousands, except for number of shares)

	Class A and B common stock		Additional paid-in	Accumulated other comprehensive	Accumulated	Total stockholders'
	Shares	Amount	capital	loss	deficit	equity
Balance at December 31, 2018	417,048,006	$ —	$ 2,012,328	$ (6,053)	$ (885,774)	$ 1,120,501
Net loss	—	—	—	—	(38,151)	(38,151)
Shares issued in connection with:						
Exercise of stock options	3,588,052	—	25,328	—	—	25,328
Vesting of early exercised stock options and other	425	—	36	—	—	36
Vesting of restricted stock units	1,994,156	—	—	—	—	—
Change in other comprehensive loss	—	—	—	2,629	—	2,629
Share-based compensation	—	—	62,835	—	—	62,835
Tax withholding related to vesting of restricted stock units	(741,324)	—	(50,801)	—	—	(50,801)
Issuance of common stock in conjunction with the conversion of senior notes, due 2022	43	—	1	—	—	1
Exercise of bond hedges in conjunction with the conversion of senior notes, due 2022	(250,614)	—	—	—	—	—
Recovery of common stock in connection with indemnification settlement agreement	(14,798)		(789)	—	—	(789)
Balance at March 31, 2019	421,623,946	—	2,048,938	(3,424)	(923,925)	1,121,589
Net loss	—	—	—	—	(6,740)	(6,740)
Shares issued in connection with:						
Exercise of stock options	2,671,530	—	22,651	—	—	22,651
Purchases under employee stock purchase plan	360,328	—	18,942	—	—	18,942
Vesting of restricted stock units	2,339,193	—	—	—	—	—
Change in other comprehensive loss	—	—	—	2,498	—	2,498
Share-based compensation	—	—	81,392	—	—	81,392
Tax withholding related to vesting of restricted stock units	(777,006)	—	(55,862)	—	—	(55,862)
Issuance of common stock in conjunction with the conversion of senior notes, due 2022	86	—	2	—	—	2
Exercise of bond hedges in conjunction with the conversion of senior notes, due 2022	(84)	—	—	—	—	—
Balance at June 30, 2019	426,217,993	—	2,116,063	(926)	(930,665)	1,184,472
Net income	—	—	—	—	29,397	29,397
Shares issued in connection with:						
Exercise of stock options	1,621,707	—	14,860	—	—	14,860
Vesting of restricted stock units	2,035,852	—	—	—	—	—
Change in other comprehensive loss	—	—	—	(1,461)	—	(1,461)
Share-based compensation	—	—	79,907	—	—	79,907
Tax withholding related to vesting of restricted stock units	(801,744)	—	(57,381)	—	—	(57,381)
Balance at September 30, 2019	429,073,808	—	2,153,449	(2,387)	(901,268)	1,249,794

	Class A and B common stock		Additional paid-in	Accumulated other comprehensive	Accumulated	Total stockholders'
	Shares	Amount	capital	loss	deficit	equity
Balance at December 31, 2017	395,194,075	$ —	$ 1,630,386	$ (1,318)	$ (842,735)	$ 786,333
Cumulative Adjustment ASC 606, Revenue from contracts with customers	—	—	—	—	(4,586)	(4,586)
Net loss	—	—	—	—	(23,986)	(23,986)
Shares issued in connection with:						
Exercise of stock options	4,213,775	—	31,354	—	—	31,354
Vesting of early exercised stock options and other	—	—	136	—	—	136
Vesting of restricted stock units	1,625,534	—	—	—	—	—
Change in other comprehensive loss	—	—	—	24	—	24
Share-based compensation	—	—	48,356	—	—	48,356
Tax withholding related to vesting of restricted stock units	(649,305)	—	(27,651)	—	—	(27,651)
Balance at March 31, 2018	400,384,079	—	1,682,581	(1,294)	(871,307)	809,980
Net loss	—	—	—	—	(5,906)	(5,906)
Shares issued in connection with:						
Exercise of stock options	3,246,683	—	23,267	—	—	23,267
Vesting of early exercised stock options and other	—	—	19	—	—	19
Purchases under employee stock purchase plan	450,236	—	12,578	—	—	12,578
Vesting of restricted stock units	2,385,704	—	—	—	—	—
Issuance of common stock in connection with business combination	2,658,139	—	140,154	—	—	140,154
Change in other comprehensive loss	—	—	—	(3,162)	—	(3,162)
Share-based compensation	—	—	54,810	—	—	54,810
Tax withholding related to vesting of restricted stock units	(773,120)	—	(40,924)	—	—	(40,924)
Conversion feature of convertible senior notes, due 2023, net of allocated costs	—	—	154,019	—	—	154,019
Purchase of bond hedges in conjunction with issuance of convertible senior notes, due 2023	—	—	(172,586)	—	—	(172,586)
Sale of warrants in conjunction with issuance of convertible senior notes, due 2023	—	—	112,125	—	—	112,125
Recovery of common stock in connection with indemnification settlement agreement	(469,898)	—	(2,745)	—	—	(2,745)
Balance at June 30, 2018	407,881,823	—	1,963,298	(4,456)	(877,213)	1,081,629
Net income	—	—	—	—	19,643	19,643
Shares issued in connection with:						
Exercise of stock options	3,200,992	—	27,580	—	—	27,580
Vesting of early exercised stock options and other	347	—	12	—	—	12
Vesting of restricted stock units	2,088,191	—	—	—	—	—
Issuance of common stock in connection with business combination	1,542	—	853	—	—	853
Change in other comprehensive loss	—	—	—	(1,889)	—	(1,889)
Share-based compensation	—	—	60,945	—	—	60,945
Tax withholding related to vesting of restricted stock units	(800,065)	—	(57,324)	—	—	(57,324)
Issuance of common stock in conjunction with the conversion of senior notes, due 2022	2,161,631	—	(9,305)	—	—	(9,305)
Exercise of bond hedges in conjunction with the conversion of senior notes, due 2022	(2,161,629)	—	—	—	—	—
Balance at September 30, 2018	412,372,832	—	1,986,059	(6,345)	(857,570)	1,122,144

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

NOTE 1 - DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

Square, Inc. (together with its subsidiaries, Square or the Company) creates tools that empower businesses, sellers and individuals to participate in the economy. Square enables sellers to accept card payments and also provides reporting and analytics, and next-day settlement. Square's point-of-sale software and other business services help sellers manage inventory, locations, and employees; access financing; engage buyers; build a website or online store; and grow sales. Cash App is an easy way to send, spend, and store money. In July 2019, the Company entered into a definitive agreement to sell the Caviar business, a food ordering service, which closed on October 31, 2019. Square was founded in 2009 and is headquartered in San Francisco, with offices in the United States, Canada, Japan, Australia, Ireland, and the UK.

Basis of Presentation

The accompanying interim condensed consolidated financial statements of the Company are unaudited. These interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP) and the applicable rules and regulations of the Securities and Exchange Commission (SEC) for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The December 31, 2018 condensed consolidated balance sheet was derived from the audited financial statements as of that date, but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

The accompanying unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, reflect all adjustments of a normal recurring nature considered necessary to state fairly the Company's consolidated financial position, results of operations, comprehensive income (loss), and cash flows for the interim periods. All intercompany transactions and balances have been eliminated in consolidation. The interim results for the three and nine months ended September 30, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019, or for any other future annual or interim period.

The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the Consolidated Financial Statements and related notes in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

Use of Estimates

The preparation of the Company's consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, as well as related 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.

Estimates, judgments, and assumptions in these consolidated financial statements include, but are not limited to, those related to revenue recognition, accrued transaction losses, valuation of the debt component of convertible senior notes, valuation of loans held for sale, goodwill, acquired intangible assets and deferred revenue, income and other taxes, operating and financing lease right-of-use assets and related liabilities, and share-based compensation.

Concentration of Credit Risk

For the three and nine months ended September 30, 2019 and 2018, the Company had no customer that accounted for greater than 10% of total net revenue.

The Company had three third-party payment processors that represented approximately 46%, 34%, and 9% of settlements receivable as of September 30, 2019. The same three parties represented approximately 45%, 33%, and 9% of settlements receivable as of December 31, 2018. All other third-party processors were insignificant.

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash, marketable debt securities, settlements receivables, customer funds, and loans held for sale. The associated risk of concentration for cash and cash equivalents and restricted cash is mitigated by banking with creditworthy institutions. At certain times, amounts on deposit exceed federal deposit insurance limits. The associated risk of concentration for marketable debt securities is mitigated by holding a diversified portfolio of highly rated investments. Settlements receivable are amounts due from well-established payment processing companies and normally take one or two business days to settle which mitigates the associated risk of concentration. The associated risk of concentration for loans held for sale is partially mitigated by credit evaluations that are performed prior to facilitating the offering of loans and ongoing performance monitoring of the Company's loan customers.

Assets Held for Sale

The Company classifies an asset group ('asset') as held for sale in the period that (i) it has approved and committed to a plan to sell the asset, (ii) the asset is available for immediate sale in its present condition, (iii) an active program to locate a buyer and other actions required to sell the asset have been initiated, (iv) the sale of the asset is probable and transfer of the asset is expected to qualify for recognition as a completed sale within one year (subject to certain events or circumstances), (v) the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value, and (vi) it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The Company initially and subsequently measures a long-lived asset that is classified as held for sale at the lower of its carrying value or fair value less any costs to sell. Any loss resulting from this measurement is recognized in general and administrative expenses in the period in which the held for sale criteria are met. Conversely, gains are generally not recognized on the sale of a long-lived asset until the date of sale. Upon designation as an asset held for sale, the Company stops recording depreciation or amortization expense on the asset. The Company assesses the fair value of assets held for sale less any costs to sell at each reporting period until the asset is no longer classified as held for sale.

New Accounting Policies

The Company adopted Accounting Standards Codification (ASC) 842, *Leases* on January 1, 2019, and elected the optional transition method to apply the transition provisions from the effective date of adoption, which requires the Company to report the cumulative effect of the adoption of the standard on the date of adoption with no changes to the prior period balances. Pursuant to the practical expedients, the Company has elected not to reassess: (i) whether expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases, or, (iii) initial direct costs for any existing leases. The Company recognized $112.0 million of operating right-of-use lease assets and $135.6 million of operating lease liabilities on its consolidated balance sheet upon adoption of this standard. Additionally, the Company derecognized $149 million related to the build-to-suit asset and liability upon adoption of this standard because the Company is no longer deemed to be the owner of the related asset under construction under the new standard. Refer to Note 19 for further detail.

Except for the adoption of ASC 842, there have been no material changes to the Company's accounting policies during the nine months ended September 30, 2019, as compared to the accounting policies described in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

Recent Accounting Pronouncements

Recently issued accounting pronouncements not yet adopted

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13,Financial Instruments - Credit Losses, which requires the measurement and recognition of expected credit losses for financial assets held. It also eliminates the concept of other-than-temporary impairment and requires credit losses related to available for sale debt securities to be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company intends to adopt this guidance effective January 1, 2020. The Company's preliminary conclusion is that the new guidance will not have a material impact on the balances reported on its consolidated financial statements. The Company has also determined that allowances for credit losses associated with its available for sale debt securities would be immaterial. Upon adoption of this guidance, the Company will expand its disclosures to discuss how it develops its expected credit loss estimates, the methodology applied to estimate the allowance for credit losses, and the factors that influence the Company's estimates. For available for sale debt securities with unrealized losses where the Company concludes that an allowance for credit losses is not necessary, the Company will expand its disclosures of the associated fair value of such securities as well as the basis for conclusions that an allowance for credit losses was not necessary.

In January 2017, the FASB issued ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment*. The new guidance eliminates the requirement to calculate the implied fair value of goodwill assuming a hypothetical purchase price allocation (i.e., Step 2 of the goodwill impairment test) to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value, not to exceed the carrying amount of goodwill. This standard should be adopted when the Company performs its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted. The amendments should be applied on a prospective basis. The Company intends to adopt this guidance effective with its 2019 annual goodwill impairment test which it performs as of December 31. The Company does not expect the adoption of this guidance to have a material impact on the consolidated financial statements and related disclosures.

In July 2018, the FASB issued ASU 2018-13, *Changes to the Disclosure Requirements for Fair Value Measurement,* which will remove, modify, and add disclosure requirements for fair value measurements to improve the overall usefulness of such disclosures. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted for any removed or modified disclosure requirements. Transition is on a prospective basis for the new and modified disclosures, and on a retrospective basis for disclosures that have been eliminated. The Company currently does not intend to early adopt any portion of this disclosure guidance. The Company is currently evaluating the impact this guidance may have on the consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract,* which is intended to align the requirements for capitalization of implementation costs incurred in a cloud computing arrangement that is a service contract with the existing guidance for internal-use software. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted. The guidance provides flexibility in adoption, allowing for either retrospective adjustment or prospective adjustment for all implementation costs incurred after the date of adoption. The Company does not expect the adoption of this guidance to have a material impact on the consolidated financial statements and related disclosures.

NOTE 2 - REVENUE

The following table presents the Company's revenue disaggregated by revenue source (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Revenue from Contracts with Customers:				
Transaction-based revenue	$ 816,622	$ 655,384	$ 2,248,894	$ 1,803,649
Subscription and services-based revenue	239,895	141,752	645,588	330,637
Hardware revenue	21,766	17,558	62,238	50,337
Bitcoin revenue	148,285	42,963	338,898	114,074
Revenue from other sources:				
Subscription and services-based revenue	$ 39,906	$ 24,451	$ 104,453	$ 66,952

The deferred revenue balances were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Deferred revenue, beginning of the period	$ 44,812	$ 27,155	$ 36,451	$ 5,893
Less: cumulative impact of the adoption of ASC 606	—	—	—	(4,303)
Deferred revenue, beginning of the period, as adjusted	44,812	27,155	36,451	1,590
Deferred revenue, end of the period	45,263	33,614	45,263	33,614
Deferred revenue arising from business combination	—	22,800	—	22,800
Revenue recognized in the period from amounts included in deferred revenue at the beginning of the period	$ 12,656	$ 10,165	$ 28,280	$ 1,539

NOTE 3 - INVESTMENTS

The Company's short-term and long-term investments as of September 30, 2019 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term debt securities:				
U.S. agency securities	$ 132,217	$ 257	$ (126)	$ 132,348
Corporate bonds	55,399	194	(92)	55,501
Commercial paper	2,245	—	—	2,245
Municipal securities	2,713	5	(49)	2,669
U.S. government securities	351,592	317	(192)	351,717
Foreign securities	13,214	—	(38)	13,176
Total	$ 557,380	$ 773	$ (497)	$ 557,656
Long-term debt securities:				
U.S. agency securities	$ 87,848	$ 219	$ (164)	$ 87,903
Corporate bonds	185,675	286	(398)	185,563
Municipal securities	12,668	12	(98)	12,582
U.S. government securities	250,434	267	(436)	250,265
Foreign securities	28,264	6	(75)	28,195
Total	$ 564,889	$ 790	$ (1,171)	$ 564,508

The Company's short-term and long-term investments as of December 31, 2018 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term debt securities:				
U.S. agency securities	$ 80,160	$ 32	$ (70)	$ 80,122
Corporate bonds	109,807	80	(368)	109,519
Municipal securities	27,839	52	(59)	27,832
U.S. government securities	292,615	161	(509)	292,267
Foreign securities	31,263	4	(16)	31,251
Total	$ 541,684	$ 329	$ (1,022)	$ 540,991
Long-term debt securities:				
U.S. agency securities	$ 114,444	$ 194	$ (78)	$ 114,560
Corporate bonds	159,783	419	(950)	159,252
Municipal securities	28,453	167	(26)	28,594
U.S. government securities	153,743	553	(172)	154,124
Foreign securities	8,122	28	—	8,150
Total	$ 464,545	$ 1,361	$ (1,226)	$ 464,680

For the periods presented, gains or losses realized on the sale of investments were not material. Investments are reviewed periodically to identify possible other-than-temporary impairments. As the Company has the ability and intent to hold these investments with unrealized losses for a reasonable period of time sufficient for the recovery of fair value, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired for any of the periods presented.

The amortized cost of investments classified as cash equivalents approximated the fair value due to the short-term nature of the investments.

The contractual maturities of the Company's short-term and long-term investments as of September 30, 2019 are as follows (in thousands):

	Amortized Cost	Fair Value
Due in one year or less	$ 557,380	$ 557,656
Due in one to five years	564,889	564,508
Total	$ 1,122,269	$ 1,122,164

NOTE 4 - CUSTOMER FUNDS

The following table presents the assets underlying customer funds (in thousands):

	September 30, 2019	December 31, 2018
Cash	$ 407,719	$ 158,697
Cash Equivalents:		
Money market funds	388	18
U.S. agency securities	21,667	39,991
U.S. government securities	6,999	35,349
Short-term debt securities:		
U.S. agency securities	1,654	27,291
U.S. government securities	222,172	72,671
Total	$ 660,599	$ 334,017

The Company's investments within customer funds as of September 30, 2019 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term debt securities:				
U.S. agency securities	$ 1,657	$ —	$ (3)	$ 1,654
U.S. government securities	222,193	39	(60)	222,172
Total	$ 223,850	$ 39	$ (63)	$ 223,826

The Company's investments within customer funds as of December 31, 2018 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term debt securities:				
U.S. agency securities	$ 27,293	$ 2	$ (4)	$ 27,291
U.S. government securities	72,662	12	(3)	72,671
Total	$ 99,955	$ 14	$ (7)	$ 99,962

For the periods presented, gains or losses realized on the sale of investments were not material. Investments are reviewed periodically to identify possible other-than-temporary impairments. As the Company has the ability and intent to hold these investments with unrealized losses for a reasonable period of time sufficient for the recovery of fair value, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired for any of the periods presented.

The amortized cost of investments classified as cash equivalents approximated the fair value due to the short-term nature of the investments.

The contractual maturities of the Company's investments within customer funds as of September 30, 2019 are as follows (in thousands):

	Amortized Cost	Fair Value
Due in one year or less	$ 223,850	$ 223,826
Total	$ 223,850	$ 223,826

NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company measures its cash equivalents, customer funds, short-term and long-term marketable debt securities, and marketable equity investments at fair value. The Company classifies these investments within Level 1 or Level 2 of the fair value hierarchy because the Company values these investments using quoted market prices or alternative pricing sources and models utilizing market observable inputs.

The Company's financial assets and liabilities that are measured at fair value on a recurring basis are classified as follows (in thousands):

	September 30, 2019			December 31, 2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Cash Equivalents:						
Money market funds	$ 304,690	$ —	$ —	$ 218,109	$ —	$ —
U.S. agency securities	—	40,410	—	—	46,423	—
Time deposits	10,146	—	—	—	—	—
U.S. government securities	23,963	—	—	—	—	—
Municipal securities	—	—	—	86,239	—	—
Foreign securities	—	—	—	—	23,981	—
Customer funds:						
Money market funds	388	—	—	18	—	—
U.S. agency securities	—	23,321	—	—	67,282	—
U.S. government securities	229,171	—	—	108,020	—	—
Short-term debt securities:						
U.S. agency securities	—	132,348	—	—	80,122	—
Corporate bonds	—	55,501	—	—	109,519	—
Commercial paper	—	2,245	—	—	—	—
Municipal securities	—	2,669	—	—	27,832	—
U.S. government securities	351,717	—	—	292,267	—	—
Foreign securities	—	13,176	—	—	31,251	—
Long-term debt securities:						
U.S. agency securities	—	87,903	—	—	114,560	—
Corporate bonds	—	185,563	—	—	159,252	—
Municipal securities	—	12,582	—	—	28,594	—
U.S. government securities	250,265	—	—	154,124	—	—
Foreign securities	—	28,195	—	—	8,150	—
Other:						
Marketable equity investment	28,875	—	—	45,342	—	—
Total	$ 1,199,215	$ 583,913	$ —	$ 904,119	$ 696,966	$ —

The carrying amounts of certain financial instruments, including settlements receivable, accounts payable, customers payable, accrued expenses and settlements payable, approximate their fair values due to their short-term nature.

The Company estimates the fair value of its convertible senior notes based on their last actively traded prices (Level 1) or market observable inputs (Level 2). The estimated fair value and carrying value of the convertible senior notes were as follows (in thousands):

	September 30, 2019		December 31, 2018	
	Carrying Value	Fair Value (Level 2)	Carrying Value	Fair Value (Level 2)
2023 Notes	$ 740,921	$ 961,092	$ 718,522	$ 901,468
2022 Notes	187,948	575,661	181,173	515,693
Total	$ 928,869	$ 1,536,753	$ 899,695	$ 1,417,161

The estimated fair value and carrying value of loans held for sale is as follows (in thousands):

	September 30, 2019		December 31, 2018	
	Carrying Value	Fair Value (Level 3)	Carrying Value	Fair Value (Level 3)
Loans held for sale	$ 120,776	$ 126,218	$ 89,974	$ 93,064
Total	$ 120,776	$ 126,218	$ 89,974	$ 93,064

For the three and nine months ended September 30, 2019, the Company recorded a charge for the excess of amortized cost over fair value of the loans of $5.3 million and $18.4 million, respectively. For the three and nine months ended September 30, 2018, the Company recorded a charge for the excess of amortized cost over fair value of the loans of $3.3 million and $9.0 million, respectively.

If applicable, the Company will recognize transfers into and out of levels within the fair value hierarchy at the end of the reporting period in which the actual event or change in circumstance occurs. During the three and nine months ended September 30, 2019 and 2018, the Company did not have any transfers in or out of Level 1, Level 2, or Level 3 assets or liabilities.

NOTE 6 - PROPERTY AND EQUIPMENT, NET

The following is a summary of property and equipment, less accumulated depreciation and amortization (in thousands):

	September 30, 2019	December 31, 2018
Leasehold improvements	$ 108,980	$ 107,611
Computer equipment	91,464	80,093
Capitalized software	76,656	58,908
Office furniture and equipment	23,284	20,699
	300,384	267,311
Less: Accumulated depreciation and amortization	(166,350)	(124,909)
Property and equipment, net	$ 134,034	$ 142,402

Depreciation and amortization expense on property and equipment was $15.3 million and $45.6 million for the three and nine months ended September 30, 2019, respectively. Depreciation and amortization expense on property and equipment was $11.7 million and $29.2 million for the three and nine months ended September 30, 2018, respectively.

NOTE 7 - ACQUISITIONS

Weebly, Inc.

On May 31, 2018, the Company acquired 100% of the outstanding shares of Weebly, Inc., a technology company that offers customers website hosting and domain name registration solutions. The acquisition of Weebly enabled the Company to combine Weebly’s web presence tools with the Company's in-person and online offerings to create a cohesive solution for sellers to start or grow an omnichannel business. The acquisition expanded the Company’s customer base globally and added a new recurring revenue stream.

The purchase consideration was comprised of $132.4 million in cash and 2,418,271 shares of the Company’s Class A common stock with an aggregate fair value of $140.1 million based on the closing price of the Company’s Class A common stock on the acquisition date. As part of the acquisition, the Company paid an aggregate of $17.7 million in cash and shares to settle outstanding vested and unvested employee options, of which $2.6 million was accounted for as post-combination compensation expense and is excluded from the purchase consideration. Third-party acquisition-related costs were insignificant. The results of Weebly's operations have been included in the consolidated financial statements since the closing date.

The acquisition was accounted for as a business combination. This method requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date and that the difference between the fair value of the consideration paid for the acquired entity and the fair value of the net assets acquired be recorded as goodwill, which is not amortized but is tested at least annually for impairment.

The table below summarizes the consideration paid for Weebly and the preliminary assessment of the fair value of the assets acquired and liabilities assumed at the closing date (in thousands, except share data).

Consideration:		
Cash	$	132,432
Stock (2,418,271 shares of Class A common stock)		140,107
	$	272,539
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Current assets (inclusive of cash acquired of $25,758)	$	46,978
Intangible customer assets		42,700
Intangible technology assets		14,900
Intangible trade name		11,300
Intangible other assets		961
Total liabilities assumed (including deferred revenue of $22,800)		(37,509)
Total identifiable net assets acquired		79,330
Goodwill		193,209
Total	$	272,539

The Company had prepared an initial determination of the fair value of the assets acquired and liabilities assumed as of the acquisition date using preliminary information. Subsequently, the Company recognized measurement period adjustments to the purchase consideration and the fair value of certain liabilities assumed as a result of further refinements in the Company's estimates. These adjustments were prospectively applied. The effect of these adjustments on the preliminary purchase price allocation was an increase in goodwill and tax liabilities assumed of $3.7 million and $4.7 million, respectively. There was no impact to the consolidated statements of operations as result of these adjustments.

As of September 30, 2019, $19.4 million of cash and 363,266 shares of the total consideration were withheld as security for indemnification obligations related to general representations and warranties, in addition to certain potential tax exposures.

Goodwill from the Weebly acquisition is primarily attributable to the value of expected synergies created by incorporating Weebly solutions into the Company's technology platform and the value of the assembled workforce. None of the goodwill generated from the Weebly acquisition or the acquired intangible assets are expected to be deductible for tax purposes. Additionally, the acquisition would have resulted in recognition of deferred tax assets arising mainly from the net of deferred tax assets from acquired net operating losses (NOLs) and research and development credits, and deferred tax liabilities associated with intangible assets and deferred revenue. However, the realization of such deferred tax assets depends primarily on the Company's post-acquisition ability to generate taxable income in future periods. Accordingly, a valuation allowance was recorded against the net acquired deferred tax asset in accounting for the acquisition.

The acquisition of Weebly did not have a material impact on the Company's reported revenue or net loss amounts for any period presented. Accordingly, pro forma financial information has not been presented.

Other acquisitions

The Company spent an aggregate of $20.4 million, net of cash acquired, in connection with other immaterial acquisitions during the nine months ended September 30, 2019, which resulted in the recognition of additional intangible assets and goodwill. Pro forma financial information has not been presented for any of our acquisitions as the impact to our consolidated financial statements was not material.

NOTE 8 - ASSETS AND LIABILITIES HELD FOR SALE

On July 31, 2019, the Company entered into a definitive agreement with DoorDash, Inc. for the sale of the Company's Caviar business, which offers food ordering and delivery services to customers. The transaction closed on October 31, 2019 and the Company received $410 million in gross proceeds comprised of $310 million in cash and $100 million of DoorDash, Inc.'s preferred stock.The Company agreed to indemnify DoorDash for potential losses and costs that may arise from certain legal and other matters. The Caviar business is a small component of the Company's overall business comprising less than 5% of the Company's consolidated total assets and revenues. The sale is in line with the Company's strategy of focusing investment on its larger and growing managed payments and Cash App businesses. Accordingly the sale of the Caviar business does not represent a strategic shift that will have a major effect on the Company's operations and financial results, and does not therefore qualify for reporting as a discontinued operation. The carrying values of the assets and liabilities to be held for sale were reported within other current assets and other current liabilities on the consolidated balance sheets.

The following table summarizes the carrying values of the assets and liabilities classified as held for sale as of September 30, 2019 (in thousands):

	Balance at September 30, 2019
Assets held for sale	
Intangible assets	$ 7,582
Goodwill	4,186
Property and equipment, net	1,098
Operating lease right-of-use assets	791
Total assets held for sale, included within other assets	13,657
Liabilities held for sale	
Operating lease liabilities, current	754
Net assets held for sale	$ 12,903

NOTE 9 - GOODWILL

Goodwill is recorded when the consideration paid for an acquisition of a business exceeds the fair value of identifiable net tangible and intangible assets acquired.

The change in carrying value of goodwill in the period was as follows (in thousands):

Balance at December 31, 2018	$ 261,705
Acquisitions	10,832
Transfer to assets held for sale (Note 8)	(4,186)
Other adjustments	(2,377)
Balance at September 30, 2019	$ 265,974

The Company performs a goodwill impairment test annually on December 31 and more frequently if events and circumstances indicate that the asset might be impaired. For the periods presented, the Company had recorded no impairment charges.

NOTE 10 - ACQUIRED INTANGIBLE ASSETS

During the three and nine months ended September 30, 2019, the Company did not make any material acquisitions.

The following table presents the detail of acquired intangible assets as of the periods presented (in thousands):

	Balance at September 30, 2019		
	Cost	Accumulated Amortization	Net
Technology assets	54,630	(30,682)	23,948
Customer assets	44,045	(6,089)	37,956
Trade name	11,300	(3,767)	7,533
Other	5,299	(1,943)	3,356
Total	$ 115,274	$ (42,481)	$ 72,793

	Balance at December 31, 2018		
	Cost	Accumulated Amortization	Net
Technology assets	$ 45,978	$ (28,420)	$ 17,558
Customer assets	57,109	(8,068)	49,041
Trade name	11,300	(1,648)	9,652
Other	2,246	(1,395)	851
Total	$ 116,633	$ (39,531)	$ 77,102

All intangible assets are amortized over their estimated useful lives. The weighted average amortization periods for acquired technology, customer intangible assets, and acquired trade name are approximately 5 years, 12 years and 4 years, respectively.

The changes to the carrying value of intangible assets were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Acquired intangible assets, net, beginning of the period	$ 84,216	$ 85,514	$ 77,102	$ 14,334
Acquisitions	—	—	14,559	75,871
Amortization expense	(3,841)	(4,384)	(11,286)	(9,075)
Transfer to assets held for sale (Note 8)	(7,582)	—	(7,582)	—
Acquired intangible assets, net, end of the period	$ 72,793	$ 81,130	$ 72,793	$ 81,130

The total estimated future amortization expense of these intangible assets as of September 30, 2019 is as follows (in thousands):

2019 (remaining 3 months)	$	3,714
2020		12,800
2021		11,829
2022		10,134
2023		8,917
Thereafter		25,399
Total	$	72,793

NOTE 11 - OTHER CONSOLIDATED BALANCE SHEET COMPONENTS (CURRENT)

Other Current Assets

The following table presents the detail of other current assets (in thousands):

	September 30, 2019		December 31, 2018	
Inventory, net	$	44,690	$	28,627
Processing costs receivable		63,652		46,102
Prepaid expenses		17,341		21,782
Accounts receivable, net		37,564		22,393
Assets held for sale (Note 8)		13,657		—
Other		38,902		46,062
Total	$	215,806	$	164,966

Accrued Expenses

The following table presents the detail of accrued expenses (in thousands):

	September 30, 2019	December 31, 2018
Accrued facilities expenses	$ 21,302	$ 13,040
Accrued payroll	21,313	9,612
Accrued advertising and other marketing	20,070	12,201
Processing costs payable	13,199	12,683
Accrued non income tax liabilities	8,383	9,503
Other accrued liabilities	39,738	25,315
Total	$ 124,005	$ 82,354

Other Current Liabilities

The following table presents the detail of other current liabilities (in thousands):

	September 30, 2019	December 31, 2018
Accounts payable	$ 37,156	$ 36,416
Deferred revenue, current	39,025	31,474
Square Capital payable (i)	5,851	6,092
Square Payroll payable (ii)	13,304	7,534
Other	12,731	17,637
Total	$ 108,067	$ 99,153

(i) Square Capital payable represents unpaid amounts arising from the purchase of loans or loan repayments collected on behalf of third parties.

(ii) Square Payroll payable represents amounts received from Square Payroll product customers that will be utilized to settle the customers' employee payroll and related obligations.

NOTE 12 - OTHER CONSOLIDATED BALANCE SHEET COMPONENTS (NON-CURRENT)

Other Non-Current Assets

The following table presents the detail of other non-current assets (in thousands):

	September 30, 2019	December 31, 2018
Marketable equity investment (i)	$ 28,875	$ 45,342
Non-current lease prepayments	34,199	—
Other	18,252	13,051
Total	$ 81,326	$ 58,393

(i) This balance represents the Company's investment in Class B common shares of Eventbrite, Inc. (Eventbrite). The investment is carried at fair value with changes in fair value being recorded on the consolidated statement of operations. During the three and nine months ended September 30, 2019, the Company recorded a gain of $2.5 million and a loss of $16.5 million, respectively, to other expense (income), net on the consolidated statements of operations arising from revaluation of this investment.

Other Non-Current Liabilities

The following table presents the detail of other non-current liabilities (in thousands):

	September 30, 2019	December 31, 2018
Statutory liabilities (i)	$ 51,623	$ 54,748
Deferred rent, non-current (ii)	—	23,003
Deferred revenue, non-current	6,238	4,977
Other	12,622	10,558
Total	$ 70,483	$ 93,286

(i) Statutory liabilities represent loss contingencies that may arise from the Company's interpretation and application of certain guidelines and rules issued by various federal, state, local, and foreign regulatory authorities.

(ii) The adoption of ASC 842 on January 1, 2019 resulted in the reclassification of deferred rent as an offset to right-of-use lease assets.

NOTE 13 - INDEBTEDNESS

Revolving Credit Facility

In November 2015, the Company entered into a revolving credit agreement with certain lenders, which extinguished the prior revolving credit agreement and provided for a $375.0 million revolving secured credit facility maturing in November 2020. This revolving credit agreement is secured by certain tangible and intangible assets.

Loans under the credit facility bear interest at the Company’s option of (i) a base rate based on the highest of the prime rate, the federal funds rate plus 0.50%, and an adjusted LIBOR rate for a one-month interest period, in each case plus a margin ranging from 0.00% to 1.00%, or (ii) an adjusted LIBOR rate plus a margin ranging from 1.00% to 2.00%. This margin is determined based on the Company’s total leverage ratio for the preceding four fiscal quarters. The Company is obligated to pay other customary fees for a credit facility of this size and type including an annual administrative agent fee of $0.1 million and an unused commitment fee of 0.15%. To date no funds have been drawn under the credit facility, with $375.0 million remaining available. The Company paid $0.1 million and $0.4 million in unused commitment fees during both the three and nine months ended September 30, 2019 and 2018, respectively. As of September 30, 2019, the Company was in compliance with all financial covenants associated with this credit facility.

Convertible Senior Notes due in 2023

On May 25, 2018, the Company issued an aggregate principal amount of $862.5 million of convertible senior notes (2023 Notes). The 2023 Notes mature on May 15, 2023, unless earlier converted or repurchased, and bear interest at a rate of 0.50% payable semi-annually on May 15 and November 15 of each year. The 2023 Notes are convertible at an initial conversion rate of 12.8456 shares of the Company's Class A common stock per $1,000 principal amount of 2023 Notes, which is equivalent to an initial conversion price of approximately $77.85 per share of Class A common stock. Holders may convert their 2023 Notes at any time prior to the close of business on the business day immediately preceding February 15, 2023 only under the following circumstances: (1) during any calendar quarter commencing after September 30, 2018 (and only during such calendar quarter), if the last reported sale price of the Company's Class A common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the measurement period) in which the trading price (as defined in the indenture governing the 2023 Notes) per $1,000 principal amount of 2023 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's Class A common stock and the conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events, including certain distributions, the occurrence of a fundamental change (as defined in the indenture governing the 2023 Notes) or a transaction resulting in the Company's Class A common stock converting into other securities or property or assets. On or after February 15, 2023, up until the close of business on the second scheduled trading day immediately preceding the maturity date, a holder may convert all or any portion of its 2023 Notes regardless of the foregoing circumstances. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of its Class A common stock, or a combination of cash and shares of its Class A common stock, at the Company's election. The Company's current policy is to settle conversions entirely in shares of the Company's Class A common stock. The Company will reevaluate this policy from time to time as conversion notices are received from holders of the 2023 Notes. The circumstances required to allow the holders to convert their 2023 Notes were not met during the nine months ended September 30, 2019.

In accounting for the issuance of the 2023 Notes, the Company separated the 2023 Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar debt instrument that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was $155.3 million and was determined by deducting the fair value of the liability component from the par value of the 2023 Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. The excess of the principal amount of the liability component over its carrying amount ("debt discount") is amortized to interest expense over the term of the 2023 Notes at an effective interest rate of 4.69% over the contractual terms of the 2023 Notes.

Debt issuance costs related to the 2023 Notes comprised of discounts and commissions payable to the initial purchasers of $6.0 million and third party offering costs of $0.8 million. The Company allocated the total amount incurred to the liability and equity components of the 2023 Notes based on their relative values. Issuance costs attributable to the liability component were $5.6 million and will be amortized to interest expense using the effective interest method over the contractual term. Issuance costs attributable to the equity component were netted with the equity component in stockholders' equity.

Convertible Senior Notes due in 2022

On March 6, 2017, the Company issued an aggregate principal amount of $440.0 million of convertible senior notes (2022 Notes). The 2022 Notes mature on March 1, 2022, unless earlier converted or repurchased, and bear interest at a rate of 0.375% payable semi-annually on March 1 and September 1 of each year. The 2022 Notes are convertible at an initial conversion rate of 43.5749 shares of the Company's Class A common stock per $1,000 principal amount of 2022 Notes, which is equivalent to an initial conversion price of approximately $22.95 per share of Class A common stock. Holders may convert their 2022 Notes at any time prior to the close of business on the business day immediately preceding December 1, 2021 only under the following circumstances: (1) during any calendar quarter (and only during such calendar quarter), if the last reported sale price of the Company's Class A common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the measurement period) in which the trading price (as defined in the indenture governing the 2022 Notes) per $1,000 principal amount of 2022 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's Class A common stock and the conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events, including certain distributions, the occurrence of a fundamental change (as defined in the indenture governing the 2022 Notes) or a transaction resulting in the Company's Class A common stock converting into other securities or property or assets. On or after December 1, 2021, up until the close of business on the second scheduled trading day immediately preceding the maturity date, a holder may convert all or any portion of its 2022 Notes regardless of the foregoing circumstances. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of its Class A common stock, or a combination of cash and shares of its Class A common stock, at the Company's election. The circumstances required to allow the holders to convert their 2022 Notes were met starting January 1, 2018 and continued to be met through September 30, 2019. In 2018, certain holders of the 2022 Notes converted an aggregate principal amount of $228.3 million of their Notes. The Company settled the conversions through a combination of $219.4 million in cash and issuance of 7.3 million shares of the Company's Class A common stock. Conversions in the nine months ended September 30, 2019 were not material. The Company currently expects to settle future conversions entirely in shares of the Company's Class A common stock. The Company will reevaluate this policy from time to time as conversion notices are received from holders of the 2022 Notes.

In accounting for the issuance of the 2022 Notes, the Company separated the 2022 Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar debt instrument that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was $86.2 million and was determined by deducting the fair value of the liability component from the par value of the 2022 Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. The debt discount is amortized to interest expense over the term of the 2022 Notes at an effective interest rate of 5.34% over the contractual terms of the 2022 Notes.

Debt issuance costs related to the 2022 Notes comprised of discounts and commissions payable to the initial purchasers of $11.0 million and third party offering costs of $0.8 million. The Company allocated the total amount incurred to the liability and equity components of the 2022 Notes based on their relative values. Issuance costs attributable to the liability component were $9.4 million and will be amortized to interest expense using the effective interest method over the contractual term. Issuance costs attributable to the equity component were netted with the equity component in stockholders' equity.

The debt component associated with the 2022 Notes that were converted as of December 31, 2018, was accounted for as an extinguishment of debt, with the Company recording loss on extinguishment of $5.0 million, as the difference between the estimated fair value and the carrying value of such 2022 Notes. The equity component associated with the 2022 Notes that were converted was accounted for as a reacquisition of equity upon the conversion of such 2022 Notes. Accordingly, the excess of the fair value of the consideration issued to settle the conversion over the fair value of the debt component of $21.0 million was accounted for as a reduction to the additional paid in capital.

The net carrying amount of the Notes were as follows (in thousands):

	Principal outstanding	Unamortized debt discount	Unamortized debt issuance costs	Net carrying value
September 30, 2019				
2023 Notes	$ 862,500	$ (117,932)	$ (3,647)	$ 740,921
2022 Notes	211,726	(21,400)	(2,378)	187,948
Total	$ 1,074,226	$ (139,332)	$ (6,025)	$ 928,869
December 31, 2018				
2023 Notes	$ 862,500	$ (138,924)	$ (5,054)	$ 718,522
2022 Notes	211,728	(27,569)	(2,986)	181,173
	$ 1,074,228	$ (166,493)	$ (8,040)	$ 899,695

The net carrying amount of the equity component of the 2023 Notes and 2022 Notes were as follows (in thousands):

	Amount allocated to conversion option	Less: allocated issuance costs	Equity component, net
September 30, 2019 and December 31, 2018			
2023 Notes	$ 155,250	$ (1,231)	$ 154,019
2022 Notes	41,481	(1,108)	40,373
Total	$ 196,731	$ (2,339)	$ 194,392

The Company recognized interest expense on the Notes as follows (in thousands, except for percentages):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Contractual interest expense	$ 1,277	$ 1,469	$ 3,831	$ 2,732
Amortization of debt discount and issuance costs	9,843	11,627	29,176	22,850
Total	$ 11,120	$ 13,096	$ 33,007	$ 25,582

The effective interest rate of the liability component is 4.69% and 5.34% for the 2023 Notes and 2022 Notes, respectively.

Convertible Note Hedge and Warrant Transactions

In connection with the offering of the 2023 Notes, the Company entered into convertible note hedge transactions (2023 convertible note hedges) with certain financial institution counterparties (2018 Counterparties) whereby the Company has the option to purchase a total of approximately 11.1 million shares of its Class A common stock at a price of approximately $77.85 per share. The total cost of the 2023 convertible note hedge transactions was $172.6 million. In addition, the Company sold warrants (2023 warrants) to the 2018 Counterparties whereby the 2018 Counterparties have the option to purchase a total of 11.1 million shares of the Company’s Class A common stock at a price of approximately $109.26 per share. The Company received $112.1 million in cash proceeds from the sale of the 2023 warrants. Taken together, the purchase of the 2023 convertible note hedges and sale of the 2023 warrants are intended to reduce dilution from the conversion of the 2023 Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of the converted 2023 Notes, as the case may be, and to effectively increase the overall conversion price from approximately $77.85 per share to approximately $109.26 per share. As these instruments are considered indexed to the Company's own stock and are considered equity classified, the 2023 convertible note hedges and 2023 warrants are recorded in stockholders' equity, are not accounted for as derivatives and are not remeasured each reporting period. The net costs incurred in connection with the 2023 convertible note hedge and 2023 warrant transactions were recorded as a reduction to additional paid-in capital on the condensed consolidated balance sheets.

In connection with the offering of the 2022 Notes, the Company entered into convertible note hedge transactions (2022 convertible note hedges) with certain financial institution counterparties (2017 Counterparties) whereby the Company has the option to purchase a total of approximately 19.2 million shares of its Class A common stock at a price of approximately $22.95 per share. The total cost of the 2022 convertible note hedge transactions was $92.1 million. In addition, the Company sold warrants (2022 warrants) to the 2017 Counterparties whereby the 2017 Counterparties have the option to purchase a total of 19.2 million shares of the Company's Class A common stock at a price of approximately $31.18 per share. The Company received $57.2 million in cash proceeds from the sale of the 2022 warrants. Taken together, the purchase of the 2022 convertible note hedges and sale of the 2022 warrants are intended to reduce dilution from the conversion of the 2022 Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of the converted 2022 Notes, as the case may be, and to effectively increase the overall conversion price from approximately $22.95 per share to approximately $31.18 per share. As these instruments are considered indexed to the Company's own stock and are considered equity classified, the 2022 convertible note hedges and 2022 warrants are recorded in stockholders' equity, are not accounted for as derivatives and are not remeasured each reporting period. The net costs incurred in connection with the 2022 convertible note hedge and 2022 warrant transactions were recorded as a reduction to additional paid-in capital on the condensed consolidated balance sheets. In 2018, the Company exercised a pro-rata portion of the 2022 convertible note hedges to offset the shares of the Company's Class A common stock issued to settle the conversion of the 2022 Notes discussed above. The 2022 convertible note hedges were net share settled, and the Company received 6.9 million shares of the Company's Class A common stock from the 2017 Counterparties in 2018. During the nine months ended September 30, 2019, the Company received an additional 0.3 million shares of the Company's Class A common stock.

NOTE 14 - ACCRUED TRANSACTION LOSSES

The Company is exposed to transaction losses due to chargebacks as a result of fraud or uncollectibility.

The following table summarizes the activities of the Company's reserve for transaction losses (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Accrued transaction losses, beginning of the period	$ 39,630	$ 29,207	$ 33,682	$ 26,893
Provision for transaction losses	18,225	20,449	60,223	48,794
Charge-offs to accrued transaction losses	(20,436)	(14,324)	(56,486)	(40,355)
Accrued transaction losses, end of the period	$ 37,419	$ 35,332	$ 37,419	$ 35,332

NOTE 15 - INCOME TAXES

The Company recorded an income tax expense of $2.6 million and $2.3 million for the three and nine months ended September 30, 2019, respectively, compared to income tax expense of $1.1 million and $1.8 million for the three and nine months ended September 30, 2018, respectively. The income tax expense recorded for the three and nine months ended September 30, 2019 was primarily due to state and foreign income tax expense offset by a change in the valuation allowance on the Company's deferred tax assets.

The Company's effective tax rate was 8.1% and (17.1)% for the three and nine months ended September 30, 2019, respectively, compared to an effective tax rate of 5.1% and (22.0)% for the three and nine months ended September 30, 2018, respectively. The difference between the effective tax rate and the federal statutory tax rate for the three and nine months ended September 30, 2019 and September 30, 2018 primarily relates to tax losses in the U.S. and certain foreign jurisdictions for which no benefit can be taken.

The Company’s effective tax rate may be subject to fluctuation during the year as new information is obtained, which may affect the assumptions used to estimate the annual effective tax rate, including factors such as the mix of forecasted pre-tax earnings in the various jurisdictions in which the Company operates, valuation allowances against deferred tax assets, the recognition and de-recognition of tax benefits related to uncertain tax positions, and changes in or the interpretation of tax laws in jurisdictions where the Company conducts business.

As of September 30, 2019, the Company retains a full valuation allowance on its deferred tax assets in the U.S. and certain foreign jurisdictions. The realization of the Company’s deferred tax assets depends primarily on its ability to generate taxable income in future periods. The amount of deferred tax assets considered realizable in future periods may change as management continues to reassess the underlying factors it uses in estimating future taxable income.

The tax provision for the three and nine months ended September 30, 2019 and September 30, 2018, was calculated on a jurisdictional basis. The Company estimated the foreign income tax provision using the effective income tax rate expected to be applicable for the full year.

NOTE 16 - STOCKHOLDERS’ EQUITY

Common Stock

The Company has authorized the issuance of Class A common stock and Class B common stock. Holders of shares of Class A common stock are entitled to one vote per share, while holders of shares of Class B common stock are entitled to ten votes per share. Shares of the Company's Class B common stock are convertible into an equivalent number of shares of its Class A common stock and generally convert into shares of its Class A common stock upon transfer. The holders of Class A common stock and Class B common stock have no preemptive or other subscription rights and there are no redemption or sinking fund provisions with respect to such shares. Class A common stock and Class B common stock are referred to as "common stock" throughout these Notes to the Condensed Consolidated Financial Statements, unless otherwise noted. As of September 30, 2019, the Company was authorized to issue 1,000,000,000 shares of Class A common stock and 500,000,000 shares of Class B common stock, each with a par value of $0.0000001 per share. As of September 30, 2019, there were 346,552,092 shares of Class A common stock and 82,521,716 shares of Class B common stock outstanding. Options and awards granted following the Company's initial public offering are related to underlying Class A common stock.

Warrants

In conjunction with the 2023 Notes offering, the Company sold the 2023 warrants whereby the 2018 Counterparties have the option to purchase a total of approximately 11.1 million shares of the Company’s Class A common stock at a price of $109.26 per share. The Company received $112.1 million in cash proceeds from the sale of the 2023 warrants. See Note 13, *Indebtedness*, for more details on this transaction.

In conjunction with the 2022 Notes offering, the Company sold warrants whereby the 2017 Counterparties have the option to purchase a total of approximately 19.2 million shares of the Company’s Class A common stock at a price of $31.18 per share. None of the warrants associated with the 2022 and 2023 Notes offering were exercised as of September 30, 2019.

Stock Plans

The Company maintains two share-based employee compensation plans: the 2009 Stock Plan (2009 Plan) and the 2015 Equity Incentive Plan (2015 Plan). The 2015 Plan serves as the successor to the 2009 Plan. The 2015 Plan became effective as of November 17, 2015. Outstanding awards under the 2009 Plan continue to be subject to the terms and conditions of the 2009 Plan. Since November 17, 2015, no additional awards have been nor will be in the future granted under the 2009 Plan.

Under the 2015 Plan, shares of the Company's Class A common stock are reserved for the issuance of incentive and nonstatutory stock options, restricted stock awards (RSAs), restricted stock units (RSUs), performance shares, and stock bonuses to qualified employees, directors, and consultants. The awards must be granted at a price per share not less than the fair market value at the date of grant. Initially, 30,000,000 shares were reserved under the 2015 Plan, and any shares subject to options or other similar awards granted under the 2009 Plan that expire, are forfeited, are repurchased by the Company, or otherwise terminate unexercised, will become available under the 2015 Plan. The number of shares available for issuance under the 2015 Plan will be increased on the first day of each fiscal year, in an amount equal to the least of (i) 40,000,000 shares, (ii) 5% of the outstanding shares on the last day of the immediately preceding fiscal year, or (iii) such number of shares determined by the Company's board of directors or a committee thereof. As of September 30, 2019, the total number of shares subject to stock options, RSAs and RSUs outstanding under the 2015 Plan was 21,822,262, and 82,968,841 shares were available for future issuance. As of September 30, 2019, the total number of shares subject to stock options, RSAs and RSUs outstanding under the 2009 Plan was 20,422,313.

A summary of stock option activity for the nine months ended September 30, 2019 is as follows (in thousands, except share and per share data):

	Number of Stock Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Balance at December 31, 2018	33,152,881	$ 9.52	5.45	$ 1,543,793
Granted	1,184,657	72.15		
Exercised	(7,881,289)	7.97		
Forfeited	(136,772)	11.70		
Balance at September 30, 2019	26,319,477	$ 12.80	5.23	$ 1,305,789
Options exercisable as of September 30, 2019	24,136,540	$ 9.40	4.92	$ 1,269,509

Restricted Stock Activity

Activity related to RSAs and RSUs during the nine months ended September 30, 2019 is set forth below:

	Number of shares	Weighted Average Grant Date Fair Value
Unvested as of December 31, 2018	17,934,728	$ 31.34
Granted	5,735,224	73.29
Vested	(6,016,950)	29.05
Forfeited	(1,727,904)	35.90
Unvested as of September 30, 2019	15,925,098	$ 46.82

Share-Based Compensation

The fair value of stock options and employee stock purchase plan rights are estimated on the date of grant using the Black-Scholes-Merton option valuation model. The fair value of RSAs and RSUs is determined by the closing price of the Company's common stock on each grant date.

The fair value of stock options granted was estimated using the following weighted-average assumptions:

	Nine Months Ended September 30,	
	2019	2018
Dividend yield	—%	—%
Risk-free interest rate	2.48%	2.92%
Expected volatility	39.52%	30.87%
Expected term (years)	6.05	6.19

The following table summarizes the effects of share-based compensation on the Company's condensed consolidated statements of operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Cost of revenue	$ 38	$ 18	$ 88	$ 79
Product development	56,321	39,525	155,114	103,813
Sales and marketing	6,269	6,108	20,304	16,703
General and administrative	14,798	13,262	42,474	37,261
Total	$ 77,426	$ 58,913	$ 217,980	$ 157,856

The Company recorded $5.1 million and $14.1 million of share-based compensation expense related to the Company's 2015 Employee Stock Purchase Plan during the three and nine months ended September 30, 2019, respectively, compared to $2.0 million and $6.3 million for the three and nine months ended September 30, 2018, which are included in the table above.

The Company capitalized $2.4 million and $6.0 million of share-based compensation expense related to capitalized software costs during the three and nine months ended September 30, 2019, respectively, compared to $2.0 million and $6.3 million for the three and nine months ended September 30, 2018, respectively.

As of September 30, 2019, there was $745.0 million of total unrecognized compensation cost related to outstanding awards that are expected to be recognized over a weighted-average period of 2.8 years.

NOTE 17 - NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed by dividing the net income (loss) by the weighted-average number of shares of common stock outstanding during the period. Diluted net income per share is computed by dividing net income by the weighted-average number of shares of common stock outstanding adjusted for the dilutive effect of all potential shares of common stock. In periods when the Company reported a net loss, diluted net loss per share is the same as basic net loss per share because the effects of potentially dilutive items were anti-dilutive.

The following table presents the calculation of basic and diluted net income (loss) per share (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Numerator:				
Net income (loss)	$ 29,397	$ 19,643	$ (15,494)	$ (10,249)
Denominator:				
Basic shares:				
Weighted-average common shares outstanding	427,906	410,095	423,957	403,577
Weighted-average unvested shares	(782)	(405)	(718)	(597)
Weighted-average shares used to compute basic net loss per share	427,124	409,690	423,239	402,980
Diluted shares:				
Stock options and restricted stock units	28,549	47,175	—	—
Convertible senior notes	—	6,409	—	—
Common stock warrants	10,372	11,422	—	—
Employee stock purchase plan	54	219	—	—
Weighted-average shares used to compute diluted net income (loss) per share	466,099	474,915	423,239	402,980
Net income (loss) per share:				
Basic	$ 0.07	$ 0.05	$ (0.04)	$ (0.03)
Diluted	$ 0.06	$ 0.04	$ (0.04)	$ (0.03)

Additionally, since the Company intends to settle future conversions of its outstanding 2022 Notes and 2023 Notes entirely in shares of its Class A common stock, the Company will consider the number of shares expected to be issued in calculating any potential dilutive effect of the conversions, if applicable.

The following potential common shares were excluded from the calculation of diluted net income (loss) per share because their effect would have been anti-dilutive for the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Stock options and restricted stock units	15,113	12,079	46,045	62,822
Common stock warrants	19,880	18,830	30,252	24,387
Convertible senior notes	20,305	23,415	20,305	24,276
Unvested shares	782	405	718	597
Employee stock purchase plan	189	26	217	207
Total anti-dilutive securities	56,269	54,755	97,537	112,289

NOTE 18 - RELATED PARTY TRANSACTIONS

In July 2019, the Company entered into a lease agreement to lease certain office space located in St. Louis, Missouri, from an affiliate of one of the Company's co-founders and current member of its board and directors, Mr. Jim McKelvey, under an operating lease agreement as discussed in Note 19, Commitments and Contingencies. The lease commencement date is expected to be in April 2020. The term of the agreement is 15.5 years with total future minimum lease payments over the term of approximately $42.7 million. The Company has not yet recognized a right of use asset and lease obligation under this agreement as of September 30, 2019.

NOTE 19 - COMMITMENTS AND CONTINGENCIES

Operating and Finance Leases

The Company's operating leases are primarily comprised of office facilities, with the most significant leases relating to corporate headquarters in San Francisco and an office in New York. The Company's leases have remaining lease terms of 1 year to 12 years, some of which include options to extend for 5 year terms, or include options to terminate the leases within 1 year. None of the options to extend the leases have been included in the measurement of the right of use asset or the associated lease liability. The Company elects to apply the short-term lease measurement and recognition exemption to its leases where applicable. Operating lease right-of-use assets and operating lease liabilities are recognized at the present value of the future lease payments at the lease commencement date for each lease. The interest rate used to determine the present value of the future lease payments is our incremental borrowing rate because the interest rate implicit in most of the Company's leases is not readily determinable. The Company's incremental borrowing rate is estimated to approximate the interest rate that the Company would pay to borrow on a collateralized basis with similar terms and payments as the lease, and in economic environments where the leased asset is located. Operating lease right-of-use assets also include any prepaid lease payments and lease incentives. Operating lease expense is recognized on a straight-line basis over the lease term. The Company's lease agreements generally contain lease and non-lease components. Non-lease components, which primarily include payments for maintenance and utilities, are combined with lease payments and accounted for as a single lease component. The Company includes the fixed non-lease components in the determination of the right-of-use assets and operating lease liabilities.

In December 2018, the Company entered into a lease arrangement for 355,762 square feet of office space in Oakland, California for a term of 12 years with options to extend the lease term for two 5 year terms. The lease commencement date is expected to be in January 2020 with total lease payments over the term of approximately $276 million. Under the terms of this lease, the Company is required to make certain payments during the construction stage of the office space, which the Company will record as a prepaid lease asset. In July 2019, the Company entered into a lease arrangement for 226,258 square feet of office space in St Louis, Missouri, with an affiliate of one of the Company's co-founders, Mr. Jim McKelvey, who is also a Company stockholder and a member of its board of directors, for a term of 15.5 years with options to extend the lease term for two 5 year terms. The Company also has an option to terminate the lease for up to 50% of the leased space any time between January 1, 2024 and December 31, 2026, as well as an option to terminate the lease for the entire property on January 1, 2034. Termination penalties specified in the lease agreement will apply if the Company exercises any of the options to terminate the lease. The lease commencement date is expected to be in April 2020 with total future minimum lease payments over the term of approximately $42.7 million.

Additionally, the Company has finance leases for data center equipment, with remaining lease terms of approximately 2 years.

The components of lease expense were as follows (in thousands):

	Three Months Ended September 30,	Nine Months Ended September 30,
	2019	2019
Fixed operating lease costs	$ 7,449	$ 21,626
Variable operating lease costs	1,646	3,871
Sublease income	(1,468)	(1,570)
Finance lease costs		
Amortization of finance right-of-use assets	1,284	3,861
Interest on finance lease liabilities	—	—
Total lease costs	$ 8,911	$ 27,788

For the periods presented, costs associated with short-term leases were not material.

Other information related to leases was as follows:

	September 30, 2019
Weighted Average Remaining Lease Term:	
Operating leases	4.5 years
Finance leases	0.9 years
Weighted Average Discount Rate:	
Operating leases	4%
Finance leases	—%

Cash flows related to leases were as follows (in thousands):

	Nine Months Ended September 30,
	2019
Cash flows from operating activities:	
Payments for operating lease liabilities	$ 24,580
Cash flows from financing activities:	
Principal payments on finance lease obligation	$ 3,860
Supplemental Cash Flow Data:	
Right-of-use assets obtained in exchange for operating lease obligations	$ 31,013

Future minimum lease payments under non-cancelable operating leases (with initial lease terms in excess of one year) and future minimum finance lease payments as of September 30, 2019 are as follows (in thousands):

	Finance	Operating
Year:		
2019 (remaining 3 months)	$ 1,178	$ 5,942
2020	2,446	40,388
2021	—	59,459
2022	—	61,005
2023	—	54,842
Thereafter	—	270,872
Total	$ 3,624	$ 492,508
Less: amount representing interest	—	13,245
Less: leases executed but not yet commenced	—	344,202
Less: lease incentives and transfer to held for sale	—	2,825
Total	$ 3,624	$ 132,236

The current portion of the finance lease liability is included within other current liabilities while the non-current portion is included within other non-current liabilities on the condensed consolidated balance sheets. The associated finance lease assets are included in property and equipment, net on the condensed consolidated balance sheets.

Litigation

The Company is currently a party to, and may in the future be involved in, various litigation matters (including intellectual property litigation), legal claims, and government investigations.

The Treasurer & Tax Collector of the City and County of San Francisco (Tax Collector) has issued a decision for fiscal years 2014 and 2015, that the Tax Collector believes the Company's primary business activity is financial services rather than information, and accordingly, the Company would be liable for the Gross Receipts Tax and Payroll Expense Tax under the rules for financial services business activities. The Company paid the liability of $1.3 million for fiscal years 2014 and 2015 in the first quarter of 2018, as assessed by the Tax Collector, even though the Company strongly disagrees with the Tax Collector's assessment of the Company's primary business activity. Additionally, in connection with a tax audit for the fiscal years 2016 and 2017, the Company received a notice of tax audit deficiency with respect to San Francisco Gross Receipts Tax and Payroll Expense Tax for those years on October 16, 2019. The Company believes its position has merit and intends to vigorously pursue all available remedies. On September 6, 2019, the Company filed a lawsuit against the Tax Collector and the City and County of San Francisco in San Francisco County Superior Court for a refund of the liability for the fiscal years of 2014 and 2015. While the Company believes it has strong arguments, there is no assurance that courts will rule in the Company's favor. Should the Company not prevail, the Company could be obligated to pay additional taxes together with any associated penalties and interest for subsequent years that in aggregate could be material. Moreover, a San Francisco ballot measure approved on November 6, 2018 increased taxes on gross receipts beginning January 1, 2019, which further increases the Company's tax exposure. Should the Company not prevail in its legal challenge against the application of San Francisco's Gross Receipts Tax to its business, the Company estimates that it could become liable to pay additional taxes, interest, and penalties that range from approximately $0 to $56 million in the aggregate for the fiscal years 2016, 2017, and 2018 and for the nine months ended on September 30, 2019, over and above the taxes the Company has already paid under the information classification. Additional taxes, interest, and penalties for future periods could be material as well. The Company regularly assesses the likelihood of adverse outcomes resulting from tax disputes such as this and examinations for all open years to determine the necessity and adequacy of any tax reserves. Given the uncertainty of the possible outcome, the Company has not recorded reserves for the exposure related to the dispute with the Tax Collector on San Francisco's Gross Receipts Tax.

In connection with the sale of Caviar to DoorDash, we have agreed to indemnify DoorDash for certain liabilities, including certain litigation related to Caviar, such as the Woodle and Cole cases mentioned below, that DoorDash assumed upon the closing of the sale. On May 14, 2018, Joshua Woodle, on behalf of a class of couriers who have delivered with Caviar in California, filed a lawsuit in San Francisco County Superior Court against the Company doing business as Caviar, which alleges that Caviar misclassified Mr. Woodle and other similarly situated couriers as independent contractors and, in doing so, violated various provisions of the California Labor Code and California Business and Professions Code. Plaintiffs seek damages and injunctive relief. The Court compelled arbitration of Mr. Woodle's arbitrable claims on November 5, 2018. On August 24, 2018, Mervyn Cole, on behalf of the State of California and similarly situated couriers who have delivered with Caviar in California filed a lawsuit in Los Angeles County Superior Court against the Company doing business as Caviar. The complaint alleges that Caviar misclassified Mr. Cole and other similarly situated couriers as independent contractors and, in doing so, violated certain provisions of the California Labor Code. The action is being brought as a representative action under the Private Attorneys General Act ("PAGA"). Plaintiffs seek civil penalties and injunctive relief. Given the early stage of these proceedings, it is not yet possible to reliably determine any potential liability that could result from these matters.

In addition, from time to time, the Company is involved in various other litigation matters and disputes arising in the ordinary course of business, including similar claims as those referenced above, alleging misclassification of couriers as independent contractors. The Company cannot at this time fairly estimate a reasonable range of exposure, if any, of the potential liability with respect to these other matters. While the Company does not believe, at this time, that any ultimate liability resulting from any of these other matters will have a material adverse effect on the Company's results of operations, financial position, or liquidity, the Company cannot give any assurance regarding the ultimate outcome of these other matters, and their resolution could be material to the Company's operating results for any particular period.

NOTE 20 - SEGMENT AND GEOGRAPHICAL INFORMATION

Operating segments are defined as components of an enterprise for which discrete financial information is available that is evaluated regularly by the chief operating decision maker (CODM) for purposes of allocating resources and evaluating financial performance. The Company's CODM is the chief executive officer who reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. As such, the Company's operations constitute a single operating segment and one reportable segment.

Revenue

Revenue by geography is based on the billing addresses of the sellers or customers. The following table sets forth revenue by geographic area (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue				
United States	$ 1,200,488	$ 838,149	$ 3,233,432	$ 2,255,657
International	65,986	43,959	166,639	109,992
Total net revenue	$ 1,266,474	$ 882,108	$ 3,400,071	$ 2,365,649

No individual country from the international markets contributed in excess of 10% of total revenue for the three and nine months ended September 30, 2019 and 2018.

Long-Lived Assets

The following table sets forth long-lived assets by geographic area (in thousands):

	September 30, 2019	December 31, 2018
Long-lived assets		
United States	$ 570,273	$ 471,970
International	11,198	9,239
Total long-lived assets	$ 581,471	$ 481,209

NOTE 21 - SUPPLEMENTAL CASH FLOW INFORMATION

The supplemental disclosures of cash flow information consist of the following (in thousands):

	Nine Months Ended September 30,	
	2019	2018
Supplemental Cash Flow Data:		
Cash paid for interest	$ 3,377	$ 1,945
Cash paid for income taxes	2,266	1,265
Right-of-use assets obtained in exchange for operating lease obligations	31,013	—
Supplemental disclosures of non-cash investing and financing activities:		
Change in purchases of property and equipment in accounts payable and accrued expenses	11,402	11,004
Unpaid business combination purchase price	8,411	3,995
Fair value of common stock issued related to business combination	—	(140,107)
Recovery of common stock in connection with indemnification settlement agreement	789	2,745
Fair value of common stock issued to settle the conversion of senior notes, due 2022	—	(189,916)
Fair value of shares received to settle senior note hedges, due 2022	—	189,916

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis in conjunction with the information set forth within the condensed consolidated financial statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q. The statements in this discussion regarding our expectations of our future performance, liquidity and capital resources, our plans, estimates, beliefs and expectations that involve risks and uncertainties, and other non-historical statements in this discussion, are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described under "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q. Our actual results may differ materially from those contained in or implied by any forward-looking statements.

Overview

We started Square in February 2009 to enable businesses (sellers) to accept card payments, an important capability that was previously inaccessible to many businesses. However, sellers need many innovative solutions to thrive, and we have expanded to provide them additional products and services and to give them access to a cohesive ecosystem of tools to help them manage and grow their businesses. In the same way that we have provided businesses with a cohesive ecosystem of tools, we introduced Cash App and are building a similar ecosystem of tools and services for individuals and sellers.

The foundation of our ecosystem is a full service, managed payments offering to our sellers while serving as the merchant of record. Once a seller downloads the Square Point of Sale mobile app, they can quickly and easily take their first payment, typically within minutes. We also provide hardware to facilitate commerce for sellers. This hardware includes magstripe readers, contactless and chip readers, Square Stand, Square Register, Square Terminal, and third-party peripherals. With our offering, a seller can accept payments in person via magnetic stripe (a swipe), EMV (Europay, MasterCard, and Visa) (a dip), or NFC (Near Field Communication) (a tap); or online via Square Invoices, Square Virtual Terminal, or the seller’s website. Once on our system, sellers gain access to technology and features such as next-day settlements, digital receipts, payment dispute management, data security, and Payment Card Industry (PCI) compliance.

Our commerce ecosystem also includes point-of-sale software and services that help sellers make informed business decisions through the use of analytics and reporting. Sellers can manage orders, inventory, locations, employees, and payroll; engage customers and grow their sales; build a website or online store with Square Online Store; and gain access to business loans through Square Capital. We monetize these features through either a per transaction fee, a subscription fee, or a service fee. During the first quarter of 2019, we launched Square Card to provide a new way for sellers to spend and manage their funds. Square Card is a business prepaid debit card that enables sellers to spend the balance they have stored with Square. When a seller takes a payment, the proceeds immediately go into their Square stored balance and can be spent using their card or withdrawn from an ATM. Sellers can also deposit funds into their Square stored balance so they can manage all of their business expenses in one place. Square earns interchange fees when sellers make purchases with Square Card.

Cash App is an ecosystem of financial tools for individuals and sellers to send, spend, and store money. With Cash App, customers can send and receive P2P (peer-to-peer) payments, receive direct deposit payments, and fund their account with a bank account or debit card. Customers can make purchases with their Cash Card, a Visa prepaid card that is linked to the balance stored in Cash App. With Cash Boost, customers receive instant discounts when they make Cash Card purchases at designated merchants. Customers can also use their stored funds to buy, hold, and sell bitcoin and equity investments within Cash App.

We also served sellers through Caviar, a food ordering service for pickup, delivery, and catering that helps restaurants reach new customers and increase sales. On July 31, 2019, we entered into a definitive agreement with DoorDash, Inc. for the sale of the Caviar business. The sale closed on October 31, 2019 and we received $410 million in gross proceeds comprised of a combination of $310 million in cash and $100 million in DoorDash, Inc.'s preferred stock, subject to adjustments based on contractual provisions.

With Square Capital, we facilitate the offering of loans to sellers based on their payment processing history, and the product is broadly available across our U.S. seller base. We currently fund a majority of these loans from arrangements with institutional third-party investors who purchase these loans. We recognize revenue upon the sale of the loans to third-party investors or over time as the sellers pay down the outstanding amounts for the loans that we hold as available for sale. We also earn a servicing fee from third-party investors that we record as revenue as we provide the services.

We have grown rapidly to serve millions of sellers that represent a diverse set of industries (including services, food-related business, and retail businesses) and sizes, ranging from a single vendor at a farmers’ market to multi-location businesses. Square sellers also span geographies, including the United States, Canada, Japan, Australia, and the United Kingdom.

Results of Operations

Revenue (in thousands, except for percentages)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019	2018	$ Change	% Change	2019	2018	$ Change	% Change
Transaction-based revenue	$ 816,622	$ 655,384	$ 161,238	25%	$ 2,248,894	$ 1,803,649	$ 445,245	25%
Subscription and services-based revenue	279,801	166,203	113,598	68%	$ 750,041	$ 397,589	$ 352,452	89%
Hardware revenue	21,766	17,558	4,208	24%	62,238	50,337	$ 11,901	24%
Bitcoin revenue	148,285	42,963	105,322	245%	$ 338,898	$ 114,074	$ 224,824	197%
Total net revenue	$ 1,266,474	$ 882,108	$ 384,366	44%	$ 3,400,071	$ 2,365,649	$ 1,034,422	44%

Total net revenue for the three and nine months ended September 30, 2019 increased by $384.4 million or 44% and $1,034.4 million or 44%, respectively, compared to the three and nine months ended September 30, 2018.

Transaction-based revenue for the three and nine months ended September 30, 2019 increased by $161.2 million or 25% and $445.2 million or 25%, respectively, compared to the three and nine months ended September 30, 2018. This increase was attributable to growth in Gross Payment Volume (GPV) processed of 25% and 26% for the three and nine months ended September 30, 2019, respectively, compared to the three and nine months ended September 30, 2018. We continued to benefit from growth in processed volumes from our existing sellers, in addition to meaningful contributions from new sellers. Additionally, GPV from larger sellers, which we define as all sellers that generate more than $125,000 in annualized GPV, represented 55% of our GPV in the third quarter of 2019, an increase from 52% in the third quarter of 2018. We continued to see ongoing success with attracting larger sellers and enabling their growth, which we believe will help us to drive strong GPV growth as we scale.

Subscription and services-based revenue for the three and nine months ended September 30, 2019 increased by $113.6 million or 68% and $352.5 million or 89%, respectively, compared to the three and nine months ended September 30, 2018. Growth was driven primarily by Cash App, Square Capital, and Instant Deposit for sellers. Cash App subscription and services-based revenue is primarily comprised of transaction fees from Cash App Instant Deposit and Cash Card, with a small portion generated from interest earned on customer funds. The acquisitions of Weebly and Zesty, completed in the second quarter of 2018, also contributed to the higher increase in revenues in the nine months ended September 30, 2019. Subscription and services-based revenue contributed 22% of total net revenue for both the three and nine months ended September 30, 2019, compared to 19% and 17% in the three and nine months ended September 30, 2018, respectively. As described above, on October 31, 2019, we closed the sale of the Caviar business, which includes Zesty, and accordingly we will no longer recognize any revenue from Caviar or Zesty upon consummation of this transaction.

Hardware revenue for the three and nine months ended September 30, 2019 increased by $4.2 million or 24% and $11.9 million or 24%, respectively, compared to the three and nine months ended September 30, 2018. The increase primarily reflects growth in shipments of Square Terminal following its launch in the fourth quarter of 2018.

Bitcoin revenue for the three and nine months ended September 30, 2019 increased by $105.3 million or 245% and $224.8 million or 197%, respectively, compared to the three and nine months ended September 30, 2018. The increase was due to the timing of the product launch in 2018 and also an increase in customer demand in 2019. The amount of bitcoin revenue recognized will fluctuate depending on the volatility of bitcoin prices in the market and customer demand.

Cost of Revenue (in thousands, except for percentages)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019	**2018**	**$ Change**	**% Change**	**2019**	**2018**	**$ Change**	**% Change**
Transaction-based costs	$ 519,312	$ 414,456	$ 104,856	25 %	$ 1,418,730	$ 1,137,716	$ 281,014	25 %
Subscription and services-based costs	63,352	47,078	16,274	35 %	183,994	117,230	66,764	57 %
Hardware costs	35,672	23,229	12,443	54 %	95,881	68,467	27,414	40 %
Bitcoin costs	146,167	42,408	103,759	245 %	333,801	112,876	220,925	196 %
Amortization of acquired technology	1,934	2,277	(343)	(15)%	5,029	5,714	(685)	(12)%
Total cost of revenue	$ 766,437	$ 529,448	$ 236,989	45 %	$ 2,037,435	$ 1,442,003	$ 595,432	41 %

Total cost of revenue for the three and nine months ended September 30, 2019 increased by $237.0 million or 45% and $595.4 million or 41%, respectively, compared to the three and nine months ended September 30, 2018.

Transaction-based costs for the three and nine months ended September 30, 2019 increased by $104.9 million or 25% and $281.0 million or 25%, respectively, compared to the three and nine months ended September 30, 2018. This increase was primarily attributable to growth in GPV processed of 25% and 26% for the three and nine months ended September 30, 2019, respectively, compared to the three and nine months ended September 30, 2018.

Subscription and services-based costs for the three and nine months ended September 30, 2019 increased by $16.3 million or 35% and $66.8 million or 57%, respectively, compared to the three and nine months ended September 30, 2018, primarily reflecting increased costs associated with the growth of Caviar, Cash Card, and Instant Deposit for sellers. Caviar contributed approximately 64% and 67%, of total subscription and services-based costs in the three and nine months ended September 30, 2019, respectively. As described above, on October 31, 2019, we closed the sale of the Caviar business and accordingly Caviar will not contribute to the subscription and services-based cost of revenue upon consummation of this transaction.

Hardware costs for the three and nine months ended September 30, 2019 increased by $12.4 million or 54% and $27.4 million or 40%, respectively, compared to the three and nine months ended September 30, 2018. The increase in hardware costs reflects growth in our sales of Square Terminal as described above. The increase was also due to costs incurred with hardware promotions in certain international markets, as well as due to a larger proportion of hardware sales through retail channels, which have lower margins.

Bitcoin costs for the three and nine months ended September 30, 2019 increased by $103.8 million or 245% and $220.9 million or 196%, respectively, compared to the three and nine months ended September 30, 2018. Bitcoin costs of revenue comprises of the amounts we pay to purchase bitcoin, which will fluctuate in line with bitcoin revenue.

Amortization of acquired technology assets for the three and nine months ended September 30, 2019 decreased by $0.3 million or 15% and $0.7 million or 12%, respectively, compared to the three and nine months ended September 30, 2018, as a result of certain technology assets reaching end of life and certain other technology assets being classified as held for sale, offset in part by assets acquired through business combinations in the second quarter of 2018.

Operating Expenses (in thousands, except for percentages)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019	**2018**	**$ Change**	**% Change**	**2019**	**2018**	**$ Change**	**% Change**
Product development	$ 168,771	$ 135,773	$ 32,998	24 %	$ 497,322	$ 355,668	$ 141,654	40%
% of total net revenue	13%	15%			15%	15%		
Sales and marketing	$ 149,467	$ 116,337	$ 33,130	28 %	$ 439,601	$ 291,846	$ 147,755	51%
% of total net revenue	12%	13%			13%	12%		
General and administrative	$ 115,980	$ 85,527	$ 30,453	36 %	$ 318,086	$ 243,800	$ 74,286	30%
% of total net revenue	9%	10%			9%	10%		
Transaction, loan and advance losses	$ 32,722	$ 23,596	$ 9,126	39 %	$ 94,827	$ 63,603	$ 31,224	49%
% of total net revenue	3%	3%			3%	3%		
Amortization of acquired customer assets	$ 1,003	$ 1,294	$ (291)	(22)%	$ 3,591	$ 2,235	$ 1,356	61%
% of total net revenue	—%	—%			—%	—%		
Total operating expenses	$ 467,943	$ 362,527	$ 105,416	29 %	$ 1,353,427	$ 957,152	$ 396,275	41%

Product development expenses for the three and nine months ended September 30, 2019 increased by $33.0 million or 24% and $141.7 million or 40%, respectively, compared to the three and nine months ended September 30, 2018, due primarily to the following:

- an increase of $27.3 million and $108.8 million in personnel costs for the three and nine months ended September 30, 2019, respectively, related to our engineering, data science, and design teams, as we continue to improve and diversify our products. The acquisition of Weebly in the second quarter of 2018 also contributed to growth in personnel costs in the nine months ended September 30, 2019, as we continued to improve and diversify our product offerings. The increase in personnel related costs includes an increase in share-based compensation expense of $16.8 million and $51.3 million for the three and nine months ended September 30, 2019, respectively;

- an increase of $4.1 million and $16.1 million in depreciation and amortization expense for the three and nine months ended September 30, 2019, respectively, as a result of additions in property and equipment including capitalized software, data center equipment, and leasehold improvements to help our business scale and as a result of assets acquired through the acquisition of Weebly; and

- an increase of $3.0 million and $11.9 million in software and data center operating costs as a result of increased capacity needs and expansion of our cloud-based services. This increase was partially offset by reduced spend on development of new hardware products in 2019 compared to 2018. The higher spend in 2018 included costs incurred in development of the Square Terminal that was launched in the fourth quarter of 2018.

Sales and marketing expenses for the three and nine months ended September 30, 2019 increased by $33.1 million or 28% and $147.8 million or 51%, respectively, compared to the three and nine months ended September 30, 2018, primarily due to the following:

- an increase of $25.3 million and $100.4 million in Cash App marketing costs for the three and nine months ended September 30, 2019, respectively, associated with increased volume of activity with our Cash App peer-to-peer service, transactions losses, Cash Card issuance costs in line with an increase in users, and advertising. We offer the peer-to-peer service to our Cash App customers for free, and we consider it to be a marketing tool to encourage the usage of Cash App, which includes Cash Card among other features;

- an increase of $4.2 million and $16.7 million in advertising costs for the three and nine months ended September 30, 2019, respectively, primarily from increased online and mobile marketing campaigns during the period; and

- an increase of $0.7 million and $16.4 million in sales and marketing personnel costs for the three and nine months ended September 30, 2019, respectively, to enable growth initiatives. The increase in personnel related costs includes an increase in share-based compensation expense of $0.2 million and $3.6 million for the three and nine months ended September 30, 2019, respectively.

General and administrative expenses for the three and nine months ended September 30, 2019 increased by $30.5 million or 36% and $74.3 million or 30%, respectively, compared to the three and nine months ended September 30, 2018, primarily due to the following:

- an increase of $8.6 million and $33.0 million in general and administrative personnel costs for the three and nine months ended September 30, 2019, respectively, mainly as a result of additions to our support, finance, and legal personnel as we continued to add resources and skills as our business scales to support long-term growth. The increase in personnel related costs includes an increase in share-based compensation expense of $1.5 million and $5.2 million for the three and nine months ended September 30, 2019, respectively; and

- the remaining increase is primarily due to software and subscription costs, local business-related taxes, third-party legal and other professional fees and other administrative expenses.

Transaction, loan and advance losses for the three and nine months ended September 30, 2019 increased by $9.1 million or 39% and $31.2 million or 49%, respectively, compared to the three and nine months ended September 30, 2018, primarily due to the following:

- transaction losses increased by $7.1 million and $21.7 million for the three and nine months ended September 30, 2019, respectively, primarily due to growth in GPV in our seller business as well as growth of our Cash App platform. Seller transaction losses remained below 0.1% of GPV, underscoring continued discipline in risk management; and

- an increase of $2.0 million and $9.5 million in loan losses for the three and nine months ended September 30, 2019, respectively, as a result of the growth and aging of our Square Capital loan portfolio as well as certain new loan products for which we continue to train our risk models.

Amortization of acquired customer assets for the three and nine months ended September 30, 2019 decreased by $0.3 million and increased by $1.4 million, respectively, compared to the three and nine months ended September 30, 2018. These changes are a result of offsetting effects related to: (i) additional customer assets acquired through certain business combinations in the second quarter of 2018 and, (ii) certain customer assets reaching their end of life and certain others associated with Caviar being classified as held for sale.

Interest Expense, Net, and Other Income, Net (in thousands, except for percentages)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019	**2018**	**$ Change**	**% Change**	**2019**	**2018**	**$ Change**	**% Change**
Interest expense, net	$ 5,632	$ 7,224	$ (1,592)	(22)%	$ 15,456	$ 12,806	$ 2,650	21%
Other expense (income), net	$ (5,541)	$ (37,800)	$ 32,259	NM	$ 6,988	$ (37,908)	$ 44,896	NM

Interest expense, net, for the three months ended September 30, 2019 decreased by $1.6 million compared to the three months ended September 30, 2018, while it increased by $2.7 million during the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. These changes were primarily due to interest expense related to our convertible notes offset in part by interest income earned on our investments in marketable debt securities. The interest expense related to the convertible notes is a function of the average balance of convertible notes outstanding in each of the periods. The issuance of the convertible notes in May 2018 resulted to a higher average balance in the nine months ended September 30, 2019 compared to the same period in 2018, while the conversions during the third quarter of 2018 resulted in a lower outstanding balance in the third quarter of 2019 compared to same period in 2018.

Other income, for the three and nine months ended September 30, 2019 decreased by $32.3 million and $44.9 million, respectively, compared to the three and nine months ended September 30, 2018. The decrease was primarily driven by the amounts of gains or losses arising from the revaluation of our equity investment in Eventbrite, Inc. We recorded a gain of $2.5 million and $36.9 million on the revaluation of this investment in the three months ended September 30, 2019 and 2018, respectively. For the nine months ended September 30, 2019 we recorded a loss of $16.5 million compared to gain of $36.9 million in the comparable period in 2018. Gains or losses arising from marking to market this investment may fluctuate significantly in future periods due to volatility of Eventbrite's stock price. This activity was offset in part by income earned from other marketable securities held for investment.

Provision for Income Taxes (in thousands, except for percentages)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019	**2018**	**$ Change**	**% Change**	**2019**	**2018**	**$ Change**	**% Change**
Provision for income taxes	$ 2,606	$ 1,066	$ 1,540	144%	$ 2,259	$ 1,845	$ 414	22%
Effective tax rate	8.1%	5.1%			(17.1)%	(22.0)%		

Provision for income taxes for the three and nine months ended September 30, 2019 increased by $1.5 million and $0.4 million, respectively, compared to the three and nine months ended September 30, 2018. The increase for the three months ended September 30, 2019 is due to a change in the U.S. valuation allowance. The increase for the nine months ended September 30, 2019 is due to a change in the mix of U.S. and international income.

Key Operating Metrics and Non-GAAP Financial Measures

We collect and analyze operating and financial data to evaluate the health of our business, allocate our resources, and assess our performance. In addition to total net revenue, net income (loss), and other results under generally accepted accounting principles (GAAP), the following table sets forth key operating metrics and non-GAAP financial measures we use to evaluate our business. We believe these metrics and measures are useful to facilitate period-to-period comparisons of our business and to facilitate comparisons of our performance to that of other payments solution providers.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands, except GPV and per share data)			
Gross Payment Volume (GPV) (in millions)	$ 28,228	$ 22,498	$ 77,599	$ 61,696
Adjusted Revenue	$ 602,219	$ 431,136	$ 1,654,069	$ 1,123,389
Adjusted EBITDA	$ 131,323	$ 70,997	$ 298,324	$ 175,213
Adjusted Net Income Per Share:				
Basic	$ 0.28	$ 0.16	$ 0.65	$ 0.39
Diluted	$ 0.25	$ 0.13	$ 0.57	$ 0.33

Gross Payment Volume (GPV)

We define GPV as the total dollar amount of all card payments processed by sellers using Square, net of refunds. Additionally, GPV includes Cash App activity related to peer-to-peer payments sent from a credit card and Cash for Business.

Adjusted Revenue

In November 2015 we introduced Adjusted Revenue as a supplemental non-GAAP measure as we felt it would provide investors and analysts with useful metrics to measure the performance and growth of our ongoing recurring business and allow comparability to other businesses in the payment processing sector. Further, Adjusted Revenue is consistent with what management uses to assess the performance, growth, and contribution of our different products and services that have significantly different margins. Adjusted Revenue was intended to be supplemental to, and not a substitute for the Company's net revenue, which is calculated in accordance with US GAAP.

Following receipt of a comment letter from, and subsequent communications with, the Division of Corporation Finance of the Securities and Exchange Commission (the "SEC"), we will discontinue the use of the Adjusted Revenue measure based on the SEC's evolving position with respect to non-GAAP performance measures. Accordingly, this third quarter will be the last quarter for which we will report Adjusted Revenue. We will not be providing Adjusted Revenue for periods beginning in the fourth quarter of 2019 and going forward. Our statement of operations will continue to disclose total revenues, transaction-based costs and bitcoin costs, determined in accordance with US GAAP, which are the key components of Adjusted Revenue. There are no other changes to disclosures relating to the other key operating and non-GAAP financial measures discussed above.

Adjusted Revenue is a non-GAAP financial measure that we define as our total net revenue less transaction-based costs and bitcoin costs, and we add back the impact of the acquired deferred revenue adjustment, which was written down to fair value in purchase accounting. We believe it is useful to subtract transaction-based costs and bitcoin costs from total net revenue to derive Adjusted Revenue as this is a primary metric used by management to measure our business performance, and it affords greater comparability to other payments solution providers. Substantially all of the transaction-based costs are interchange and assessment fees, processing fees, and bank settlement fees paid to third-party payment processors and financial institutions. While some payments solution providers present their revenue in a similar fashion to us, others present their revenue net of transaction-based costs because, unlike us, they pass through these costs directly to their sellers and are not deemed the principal in these arrangements. Under our standard pricing model, we do not pass through these costs directly to our sellers. We also deduct bitcoin costs because we consider our role in the bitcoin transactions to be facilitating customer access to bitcoin. Since we only apply a small margin to the market cost of bitcoin when we sell bitcoin to customers, and we have no control over the cost of bitcoin in the market which tends to be volatile, we believe deducting bitcoin costs from the bitcoin transactions is a better reflection of the economic benefits as well as the Company's performance. We recognize acquired deferred revenue that was written down for purchase accounting since we believe that it is correlated with ordinary and ongoing operations of the acquired company and facilitates analysis of revenue growth and business trends.

Adjusted Revenue has limitations as a financial measure, should be considered as supplemental in nature, and is not meant as a substitute for the related financial information prepared in accordance with GAAP. These limitations include the following:

- Adjusted Revenue is net of transaction-based costs, which is our largest cost of revenue item;
- Adjusted Revenue is net of bitcoin costs, which could be a significant cost;

- the deferred revenue adjustment that is added back to Adjusted Revenue will never be recognized as revenue by the Company; and

- other companies, including companies in our industry, may calculate Adjusted Revenue differently or not at all, which reduces its usefulness as a comparative measure.

Because of these limitations, you should consider Adjusted Revenue alongside other financial performance measures, including total net revenue, gross profit and our financial results presented in accordance with GAAP. Additionally, as indicated above, this third quarter will be the last quarter we report Adjusted Revenue.

The following table presents a reconciliation of total net revenue to Adjusted Revenue for each of the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Total net revenue	$ 1,266,474	$ 882,108	$ 3,400,071	$ 2,365,649
Less: transaction-based costs	519,312	414,456	1,418,730	1,137,716
Less: bitcoin costs	146,167	42,408	333,801	112,876
Add: deferred revenue adjustment related to purchase accounting	1,224	5,892	6,529	8,332
Adjusted Revenue	$ 602,219	$ 431,136	$ 1,654,069	$ 1,123,389

Adjusted EBITDA and Adjusted Net Income Per Share (Adjusted EPS)

Adjusted EBITDA and Adjusted EPS are non-GAAP financial measures that represent our net income (loss) and net income (loss) per share, adjusted to eliminate the effect of certain items as described below. We have included these non-GAAP financial measures in this Quarterly Report on Form 10-Q because they are key measures used by our management to evaluate our operating performance, generate future operating plans, and make strategic decisions, including those relating to operating expenses and the allocation of internal resources. Accordingly, we believe these measures provide useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors. In addition, they provide useful measures for period-to-period comparisons of our business, as they remove the effect of certain non-cash items and certain variable charges.

- We believe it is useful to exclude non-cash charges, such as amortization of intangible assets, and share-based compensation expenses, from our non-GAAP financial measures because the amount of such expenses in any specific period may not directly correlate to the underlying performance of our business operations.

- In connection with the issuance of our convertible senior notes (as described in Note 13), we are required to recognize non-cash interest expense related to amortization of debt discount and issuance costs. We believe that excluding these expenses from our non-GAAP measures is useful to investors because such incremental non-cash interest expense does not represent a current or future cash outflow for the Company and is therefore not indicative of our continuing operations or meaningful when comparing current results to past results. Additionally, for purposes of calculating diluted Adjusted EPS we add back cash interest expense on convertible senior notes, as if converted at the beginning of the period, if the impact is dilutive, since we intend to settle future conversions of our convertible senior notes entirely in shares.

- We exclude the gain or loss on the disposal of property and equipment, gain or loss on revaluation of equity investment, gain or loss on debt extinguishment related to the conversion of senior notes and impairment of intangible assets, as applicable, from non-GAAP financial measures because we do not believe that these items are reflective of our ongoing business operations.

- We also exclude certain costs associated with acquisitions and other activities that are not normal recurring operating expenses, including amounts paid to redeem acquirees' unvested share-based compensation awards, and legal, accounting and due diligence costs, and we add back the impact of the acquired deferred revenue and deferred cost adjustment, which was written down to fair value in purchase accounting. Such amounts were not included in prior periods as they were immaterial or zero.

In addition to the items above, Adjusted EBITDA as a non-GAAP financial measure also excludes depreciation, other cash interest income and expense, other income and expense and provision or benefit from income taxes, as these items are not components of our core business operations.

Non-GAAP financial measures have limitations, should be considered as supplemental in nature and are not meant as a substitute for the related financial information prepared in accordance with GAAP. These limitations include the following:

- share-based compensation expense has been, and will continue to be for the foreseeable future, a significant recurring expense in our business and an important part of our compensation strategy;
- the intangible assets being amortized may have to be replaced in the future, and the non-GAAP financial measures do not reflect cash capital expenditure requirements for such replacements or for new capital expenditures or other capital commitments; and
- non-GAAP measures do not reflect changes in, or cash requirements for, our working capital needs.

In addition to the limitations above, Adjusted EBITDA as a non-GAAP financial measure does not reflect the effect of depreciation expense and related cash capital requirements, income taxes that may represent a reduction in cash available to us, and the effect of foreign currency exchange gains or losses which are included in other income and expense.

Other companies, including companies in our industry, may calculate the non-GAAP financial measures differently or not at all, which reduces their usefulness as comparative measures.

Because of these limitations, you should consider the non-GAAP financial measures alongside other financial performance measures, including net loss and our other financial results presented in accordance with GAAP.

The following table presents a reconciliation of net income (loss) to Adjusted EBITDA for each of the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Net income (loss)	$ 29,397	$ 19,643	$ (15,494)	$ (10,249)
Share-based compensation expense	77,426	58,913	217,980	157,856
Depreciation and amortization	19,125	15,835	56,879	38,323
Interest expense, net	5,632	7,224	15,456	12,806
Other expense (income), net	(5,541)	(37,800)	6,988	(37,908)
Provision for income taxes	2,606	1,066	2,259	1,845
Loss on disposal of property and equipment	128	806	428	781
Acquisition related and other costs	1,564	345	8,479	4,708
Acquired deferred revenue adjustment	1,224	5,892	6,529	8,332
Acquired deferred costs adjustment	(238)	(927)	(1,180)	(1,281)
Adjusted EBITDA	$ 131,323	$ 70,997	$ 298,324	$ 175,213

The following table presents a reconciliation of net income (loss) to Adjusted EPS for each of the periods indicated (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income (loss)	$ 29,397	$ 19,643	$ (15,494)	$ (10,249)
Share-based compensation expense	77,426	58,913	217,980	157,856
Amortization of intangible assets	3,841	4,384	11,286	9,075
Amortization of debt discount and issuance costs	9,843	11,627	29,176	22,850
Loss (gain) on revaluation of equity investment	(2,462)	(36,908)	16,467	(36,908)
Loss on extinguishment of long-term debt	—	1,625	—	1,625
Loss on disposal of property and equipment	128	806	428	781
Acquisition related and other costs	1,564	345	8,479	4,708
Acquired deferred revenue adjustment	1,224	5,892	6,529	8,332
Acquired deferred costs adjustment	(238)	(927)	(1,180)	(1,281)
Adjusted Net Income - basic	$ 120,723	$ 65,400	$ 273,671	$ 156,789
Cash interest expense on convertible senior notes	$ 1,277	$ —	$ 3,831	$ —
Adjusted Net Income - diluted	$ 122,000	$ 65,400	$ 277,502	$ 156,789
Weighted-average shares used to compute Adjusted Net Income Per Share:				
Basic	427,124	409,690	423,239	402,980
Diluted	486,404	495,621	486,664	475,801
Adjusted Net Income Per Share:				
Basic	$ 0.28	$ 0.16	$ 0.65	$ 0.39
Diluted	$ 0.25	$ 0.13	$ 0.57	$ 0.33

To calculate the diluted Adjusted EPS, we adjust the weighted-average number of shares of common stock outstanding for the dilutive effect of all potential shares of common stock.

In periods when we recorded an Adjusted Net Loss, the diluted Adjusted EPS is the same as basic Adjusted EPS because the effects of potentially dilutive items were anti-dilutive given the Adjusted Net Loss position.

Liquidity and Capital Resources

The following table summarizes our cash, cash equivalents, restricted cash, and investments in marketable debt securities (in thousands):

	September 30, 2019	December 31, 2018
Cash and cash equivalents	$ 612,048	$ 583,173
Short-term restricted cash	27,389	33,838
Long-term restricted cash	14,433	15,836
Cash, cash equivalents, and restricted cash	$ 653,870	$ 632,847
Short-term investments	557,656	540,991
Long-term investments	564,508	464,680
Cash, cash equivalents, restricted cash and investments in marketable debt securities	$ 1,776,034	$ 1,638,518

The following table summarizes our cash flow activities (in thousands):

	Nine Months Ended September 30,	
	2019	2018
Net cash provided by operating activities	$ 404,583	$ 118,660
Net cash used in investing activities	(296,678)	(775,255)
Net cash provided by (used in) financing activities	(86,209)	690,738
Effect of foreign exchange rate on cash and cash equivalents	(673)	(4,154)
Net increase in cash, cash equivalents and restricted cash	$ 21,023	$ 29,989

Our principal sources of liquidity are our cash and cash equivalents and investments in marketable debt securities. As of September 30, 2019, we had $1,734.2 million of cash and cash equivalents and investments in marketable debt securities, which were held primarily in cash deposits, money market funds, U.S. government and agency securities, commercial paper, and corporate bonds. We consider all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Our investments in marketable debt securities are classified as available-for-sale.

As of September 30, 2019, we held $1.1 billion in aggregate principal amount of convertible senior notes, comprised of $211.7 million in aggregate principal amount of convertible senior notes that mature on March 1, 2022 (2022 Notes) and $862.5 million in aggregate principal amount of convertible senior notes that mature on May 15, 2023 (2023 Notes). The 2022 Notes bear interest at a rate of 0.375% payable semi-annually on March 1 and September 1 of each year, while the 2023 Notes bear interest at a rate of 0.50% payable semi-annually on May 15 and November 15 of each year. These notes can be converted or repurchased prior to maturity if certain conditions are met. We currently expect to settle future conversions of the notes entirely in shares of the Company's Class A common stock and will reevaluate this policy from time to time as conversion notices are received from holders of the notes.

In addition, we have a revolving secured credit facility that matures in November 2020. To date, no funds have been drawn under the credit facility, with $375.0 million remaining available. Loans under the credit facility bear interest at our option of (i) a base rate based on the highest of the prime rate, the federal funds rate plus 0.50%, and an adjusted LIBOR rate for a one-month interest period, in each case plus a margin ranging from 0.00% to 1.00%, or (ii) an adjusted LIBOR rate plus a margin ranging from 1.00% to 2.00%. This margin is determined based on our total leverage ratio for the preceding four fiscal quarters. We are obligated to pay other customary fees for a credit facility of this size and type including an annual administrative agent fee of $0.1 million and an unused commitment fee of 0.15%.

See Note 13, *Indebtedness*, of the Notes to the Condensed Consolidated Financial Statements for more details on these transactions.

As described above, on July 31, 2019, we entered into a definitive agreement with DoorDash, Inc. for the sale of the Caviar business. The sale closed on October 31, 2019 and the Company received $410 million in gross proceeds comprised of a combination of $310 million in cash and $100 million in DoorDash, Inc.'s preferred stock.

We believe that our existing cash and cash equivalents, investment in marketable debt securities, and availability under our line of credit will be sufficient to meet our working capital needs, including any expenditures related to strategic transactions and investment commitments that we may from time to time enter into, and planned capital expenditures for at least the next 12 months. From time to time, we may seek to raise additional capital through equity, equity-linked, and debt financing arrangements. We cannot provide assurance that any additional financing will be available to us on acceptable terms or at all.

Short-term restricted cash of $27.4 million as of September 30, 2019 reflects pledged cash deposited into savings accounts at the financial institutions that process our sellers' payments transactions and as collateral pursuant to an agreement with the originating bank for the Company's loan product. We use the restricted cash to secure letters of credit with these financial institutions to provide collateral for liabilities arising from cash flow timing differences in the processing of these payments. We have recorded this amount as a current asset on our consolidated balance sheets given the short-term nature of these cash flow timing differences and that there is no minimum time frame during which the cash must remain restricted. Additionally, this balance includes certain amounts held as collateral pursuant to multi-year lease agreements, discussed in the paragraph below, which we expect to become unrestricted within the next year.

Long-term restricted cash of $14.4 million as of September 30, 2019 is primarily related to cash deposited into money market funds that is used as collateral pursuant to multi-year lease agreements. The Company has recorded this amount as a non-current asset on the consolidated balance sheets as the lease terms extend beyond one year.

We experience significant day-to-day fluctuations in our cash and cash equivalents due to fluctuations in settlements receivable and customers payable, and hence working capital. These fluctuations are primarily due to:

- *Timing of period end.* For periods that end on a weekend or a bank holiday, our cash and cash equivalents, settlements receivable, and customers payable balances typically will be higher than for periods ending on a weekday, as we settle to our sellers for payment processing activity on business days; and

- *Fluctuations in daily GPV.* When daily GPV increases, our cash and cash equivalents, settlements receivable, and customers payable amounts increase. Typically our settlements receivable and customers payable balances at period end represent one to four days of receivables and disbursements to be made in the subsequent period. Customers payable and settlements receivable balances typically move in tandem, as pay-out and pay-in largely occur on the same business day. However, customers payable balances will be greater in amount than settlements receivable balances due to the fact that a subset of funds are held due to unlinked bank accounts, risk holds, and chargebacks. Also customer funds obligations, which are included in customers payable, may cause customers payable to trend differently than settlements receivable. Holidays and day-of-week may also cause significant volatility in daily GPV amounts.

Cash Flows from Operating Activities

Cash provided by operating activities consisted of our net loss from operations adjusted for certain non-cash items, including loss on revaluation of equity investment, depreciation and amortization, non-cash interest and other expense, share-based compensation expense, transaction, loan and advance losses, and deferred income taxes, as well as the effect of changes in operating assets and liabilities, including working capital.

For the nine months ended September 30, 2019, cash provided by operating activities was $404.6 million, primarily as a result of:

- Net loss of $15.5 million, offset by add back of non-cash items consisting primarily of share-based compensation of $218.0 million, transaction, loan and advance losses of $94.8 million, depreciation and amortization of $56.9 million, loss on revaluation of equity investment of $16.5 million, and amortization of operating lease right-of-use assets and accretion of operating lease liabilities of $22.0 million. The loss on revaluation of the equity investment is the mark to market valuation of the investment in Eventbrite. The other items are largely driven by growth and expansion of our business activities.

- Additional cash provided from changes in operating assets and liabilities, including increases in customers payable (which includes customer funds obligation) of $519.1 million and settlements payable of $27.5 million. Both customers payable and settlements payable balances increased due to higher GPV in the period end dates, as we settle processing payment activity on business days. These balances are largely offset by settlements receivable, described below, which moves in tandem.

- The cash increases described above were offset in part by cash used from changes in operating assets and liabilities, including increases in settlements receivable of $215.6 million, for reasons described above, increases in customer funds of $202.7 million as a result of an increasing customer base with stored funds on the Cash App, charge-offs to accrued transaction losses of $56.5 million arising as a result of growth in GPV, and the net loan activity related to loans held for sale of $49.2 million arising from increased loan purchases.

For the nine months ended September 30, 2018, cash provided by operating activities was $118.7 million, primarily as a result of:

- Net loss of $10.2 million less non-cash gain on revaluation of equity investment of $36.9 million, offset by add back of non-cash items consisting primarily of share-based compensation of $157.9 million, transaction, loan and advance losses of $63.6 million, depreciation and amortization of $38.3 million, and non-cash items of $23.6 million. While the gain on revaluation of the equity investment is a result of the initial public offering of Eventbrite and subsequent mark to market valuation of this investment, the other items are largely driven by growth and expansion of our business activities.

- Additional cash provided from changes in operating assets and liabilities, including increases in customers payable of $581.5 million, settlements payable of $88.5 million. Both customers payable and settlements payable balances increased significantly compared to as of December 31, 2017 primarily due to the increase in GPV at the end of the period. These balances are largely offset by settlements receivable, described below, which moves in tandem.

- Offset in part by cash used from changes in operating assets and liabilities, including increases in settlements receivable of $579.8 million for reasons described above, increases in customer funds of $156.2 million as a result of an increasing customer base with stored funds on the Cash App, and charge-offs to accrued transaction losses of $40.4 million arising as a result of growth in GPV.

Cash Flows from Investing Activities

Cash flows used in investing activities primarily relate to capital expenditures to support our growth, investments in marketable debt securities, and business acquisitions.

For the nine months ended September 30, 2019, cash used in investing activities was $296.7 million, primarily as a result of the purchases of marketable debt securities, net of maturities and sales of $106.0 million and the purchases of marketable debt securities from customer funds, net of maturities of $122.4 million. Additional uses of cash were as a result of the purchase of property and equipment of $45.8 million and business acquisitions, net of cash acquired of $20.4 million.

For the nine months ended September 30, 2018, cash used in investing activities was $775.3 million, primarily as a result of business acquisitions, net of cash acquired of $112.4 million and the purchase of marketable debt securities, net of maturities and sales of $624.1 million. Additional uses of cash were as a result of the purchase of property and equipment of $37.2 million.

Cash Flows from Financing Activities

For the nine months ended September 30, 2019, cash used in financing activities was $86.2 million primarily as a result of proceeds from issuances of common stock from the exercise of options and purchases under our employee share purchase plan of $81.8 million, offset by payments for employee tax withholding related to vesting of restricted stock units of $164.0 million.

For the nine months ended September 30, 2018, cash provided by financing activities was $690.7 million as a result of $795.2 million in net proceeds from the 2023 Notes offering offset in part by the cash payment of $70.0 million of principal of certain 2022 Notes upon conversion, and as a result of proceeds from issuances of common stock from the exercise of options and purchases under our employee share purchase plan of $94.8 million, offset by payments for employee tax withholding related to vesting of restricted stock units of $125.9 million.

Contractual Obligations and Commitments

There were no material changes in our commitments under contractual obligations, except for scheduled payments from the ongoing business, as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018.

Other Estimates

As disclosed in Note 19 of the Notes to the Condensed Consolidated Financial Statements, depending on the outcome of the tax dispute with the Tax Collector, we could be obligated to pay additional San Francisco Gross Receipts Tax together with associated penalties and interest, that in the aggregate could be material to our financial statements. Should the Company not prevail regarding the application of San Francisco's gross receipt tax, we estimate that the Company could become liable to recognize and pay approximately $0 to $56 million in the aggregate in additional taxes, interest, and penalties for the fiscal years 2016, 2017, and 2018 and for the nine months ended on September 30, 2019. Additional taxes, interest, and penalties for future periods could be material as well.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements during the periods presented.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, 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 accounting policies and the assumptions and estimates associated with accrued transaction losses and revenue recognition have the greatest potential effect on our consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates.

Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018. Our critical accounting policies have not materially changed during the nine months ended September 30, 2019.

Recent Accounting Pronouncements

See "Recent Accounting Pronouncements" described in Note 1 of the Notes to the Condensed Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We have operations both within the United States and globally, and we are exposed to market risks in the ordinary course of our business, including the effects of interest rate changes and foreign currency fluctuations. Information relating to quantitative and qualitative disclosures about these market risks is described below.

Interest Rate Sensitivity

Our cash and cash equivalents, and marketable debt securities as of September 30, 2019, were held primarily in cash deposits, money market funds, U.S. government and agency securities, commercial paper, and corporate bonds. The fair value of our cash, cash equivalents, and marketable debt securities would not be significantly affected by either an increase or decrease in interest rates due mainly to the short-term nature of a majority of these instruments. Additionally, we have the ability to hold these instruments until maturity if necessary to reduce our risk. Any future borrowings incurred under our credit facility would accrue interest at a floating rate based on a formula tied to certain market rates at the time of incurrence (as described above). A hypothetical 100 basis point increase or decrease in interest rates would not have a material effect on our financial results.

Foreign Currency Risk

Most of our revenue is earned in U.S. dollars, and therefore our revenue is not currently subject to significant foreign currency risk. Our foreign operations are denominated in the currencies of the countries in which our operations are located, and may be subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Japanese Yen, Canadian Dollar, Australian Dollar, Euro and British Pound. Fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our statement of operations. A 10% increase or decrease in current exchange rates would not have a material impact on our financial results.

Equity Investment Risk

We hold an equity investment at fair value based on readily determinable market values, which is subject to market price volatility, and represents $28.9 million on our consolidated balance sheets as of September 30, 2019. A hypothetical decrease in price of 10%, which could be experienced in the near term, would result in a loss of $2.9 million in other expense on the consolidated statements of operations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II—Other Information

Item 1. 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. For information regarding legal proceedings in which we are involved, see "Litigation" in Note 19 of the accompanying notes to our condensed consolidated financial statements, which is incorporated herein by reference.

In addition, from time to time, we are involved in various other litigation matters and disputes arising in the ordinary course of business. We cannot at this time fairly estimate a reasonable range of exposure, if any, of the potential liability with respect to these other matters. While we do not believe, at this time, that any ultimate liability resulting from any of these other matters will have a material adverse effect on our results of operations, financial position, or liquidity, we cannot give any assurance regarding the ultimate outcome of these other matters, and their resolution could be material to our operating results for any particular period.

Item 1A. Risk Factors

Investing in our securities involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information in this Quarterly Report on Form 10-Q, including the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our condensed consolidated financial statements and related notes, before making any investment decision with respect to our securities. The risks and uncertainties described below may not be the only ones we face. If any of the risks actually occur, our business could be materially and adversely affected. In that event, the market price of our Class A common stock could decline, and you could lose part or all of your investment.

The following description of risk factors includes any material changes to, and supersedes the description of, risk factors associated with the Company's business previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 under the heading "Risk Factors."

Risks Related to Our Business and Our Industry

Our business depends on a strong and trusted brand, and any failure to maintain, protect, and enhance our brand would hurt our business.

We have developed a strong and trusted brand that has contributed significantly to the success of our business. Our brand is predicated on the idea that our customers will trust us and find value in building and growing their businesses with our products and services. We believe that maintaining and promoting our brand in a cost-effective manner is critical to achieving widespread acceptance of our products and services and expanding our base of customers. Maintaining and promoting our brand will depend largely on our ability to continue to provide useful, reliable, secure, and innovative products and services, as well as our ability to maintain trust and be a technology leader. We may introduce, or make changes to, features, products, services, or terms of service that customers do not like, which may materially and adversely affect our brand. Our brand promotion activities may not generate customer awareness or increase revenue, and even if they do, any increase in revenue may not offset the expenses we incur in building our brand. If we fail to successfully promote and maintain our brand or if we incur excessive expenses in this effort, our business could be materially and adversely affected.

The introduction and promotion of new services, as well as the promotion of existing services, may be partly dependent on our visibility on third-party advertising platforms, such as Google, Twitter, or Facebook. Changes in the way these platforms operate or changes in their advertising prices or other terms could make the maintenance and promotion of our products and services and our brand more expensive or more difficult. If we are unable to market and promote our brand on third-party platforms effectively, our ability to acquire new customers would be materially harmed. We also use retail partners to sell hardware and acquire customers. Our ability to acquire new customers could be materially harmed if we are unable to enter into or maintain these partnerships on terms that are commercially reasonable to us, or at all.

Harm to our brand can arise from many sources, including failure by us or our partners and service providers to satisfy expectations of service and quality; inadequate protection of sensitive information; compliance failures and claims; litigation and other claims; employee misconduct; and misconduct by our partners, service providers, or other counterparties. We have also received a significant amount of media coverage since our formation. We have also been from time to time in the past, and may in the future be, the target of incomplete, inaccurate, and misleading or false statements about our company, our business, and our products and services that could damage our brand and deter people and enterprises from adopting our services. Any negative publicity about our industry or our company, the quality and reliability of our products and services, our risk management processes, changes to our products and services, our ability to effectively manage and resolve customer complaints, our privacy, data protection, and information security practices, litigation, regulatory activity, policy positions, and the experience of our customers with our products or services could adversely affect our reputation and the confidence in and use of our products and services. If we do not successfully maintain a strong and trusted brand, our business could be materially and adversely affected.

As our revenue has increased, our growth rate has slowed at times in the past and may decline in the future. Future revenue growth depends on our ability to retain existing sellers, attract new sellers, and increase sales to both new and existing sellers.

Our total net revenue grew from $1,708.7 million in 2016 to $2,214.3 million in 2017 and to $3,298.2 million in 2018. Comparing the nine months ended September 30, 2018 and 2019, our total net revenue grew from $2,365.6 million to $3,400.1 million. Our rate of revenue growth has slowed at times in the past, and may decline in the future, and it may decline more quickly than we expect for a variety of reasons, including the risks described in this Quarterly Report on Form 10-Q. Our customers have no obligation to continue to use our services, and we cannot assure you that they will. We generally do not have long-term contracts with our sellers, and the difficulty and costs associated with switching to a competitor may not be significant for many of our services. Our sellers' payment processing activity with us may decrease for a variety of reasons, including sellers' level of satisfaction with our products and services, the effectiveness of our support services, our pricing, the pricing and quality of competing products or services, the effects of global economic conditions, or reductions in our sellers' customer spending levels. In addition, the growth of our business depends in part on existing sellers expanding their use of our products and services. If we are unable to encourage sellers to broaden their use of our services, our growth may slow or stop, and our business may be materially and adversely affected. The growth of our business also depends on our ability to attract new sellers, to encourage larger sellers to use our products and services, and to introduce successful new products and services. We have invested and will continue to invest in improving our Square platform in order to offer better or new features, products and services, but if those features, products and services fail to be successful, our growth may slow or decline.

Our business has generated net losses, and we intend to continue to invest substantially in our business. Thus, we may not be able to achieve or maintain profitability.

We generated net losses of $38.5 million, $62.8 million, and $171.6 million for the years ended December 31, 2018, 2017 and 2016, respectively. During the nine months ended September 30, 2019 and 2018, we generated net losses of $15.5 million and $10.2 million, respectively.

As of September 30, 2019, we had an accumulated deficit of $901.3 million. We intend to continue to make significant investments in our business, including with respect to our employee base; sales and marketing, including expenses relating to increased direct marketing efforts, referral programs, and free hardware and subsidized services; development of new products, services, and features; acquisitions; expansion of office space and other infrastructure; expansion of international operations; and general administration, including legal, finance, and other compliance expenses related to being a public company. If the costs associated with acquiring and supporting new or larger sellers or with developing and supporting our products and services materially rise in the future, including the fees we pay to third parties to advertise our products and services, our expenses may rise significantly. In addition, increases in our seller base could cause us to incur increased losses because costs associated with new sellers are generally incurred up front, while revenue is recognized thereafter as our products and services are transferred to our sellers. If we are unable to generate adequate revenue growth and manage our expenses, we may continue to incur significant losses and may not achieve or maintain profitability.

From time to time, we may make decisions that will have a negative effect on our short-term operating results if we believe those decisions will improve the experiences of our customers, which we believe will improve our operating results over the long term. These decisions may not be consistent with the expectations of investors and may not produce the long-term benefits that we expect, in which case our business may be materially and adversely affected.

We, our sellers, our partners, and others who use our services obtain and process a large amount of sensitive data. Any real or perceived improper or unauthorized use of, disclosure of, or access to such data could harm our reputation as a trusted brand, as well as have a material and adverse effect on our business.

We, our sellers, and our partners, including third-party vendors and data centers that we use, obtain and process large amounts of sensitive data, including data related to our sellers, their customers, and their transactions, as well as other users of our services, such as Cash App and Square Payroll. We face risks, including to our reputation as a trusted brand, in the handling and protection of this data, and these risks will increase as our business continues to expand to include new products and technologies. Our operations involve the storage and transmission of sensitive information of individuals using our services, including their names, addresses, social security numbers (or their foreign equivalents), payment card numbers and expiration dates, bank account information, loans they have applied for or obtained, and data regarding the performance of our sellers' businesses. We also obtain sensitive information, including those regarding our sellers' customers, Weebly customers, Cash App customers, Square Capital customers, and Caviar diners, couriers and restaurants, including their contact information, payment card numbers and expiration dates, purchase histories, and lending information. Additionally, certain of our products and services are subject to the Health Insurance Portability and Accountability Act of 1996 (and the rules and regulations thereunder, as amended, including with respect to the HITECH Act) (HIPAA), and therefore we are required to take measures to safeguard protected health information of our sellers and their customers. Our services also provide third party developers the opportunity to provide applications to our sellers in the Square and Weebly app marketplaces. Sellers who choose to use such applications can grant permission allowing the applications to access content created or held by sellers in their Square or Weebly account. Should such third party developers experience or cause a breach, or should a technological bug inadvertently expose non-permissioned personal information to such developers, that could lead to a compromise of the content of data held by such sellers, including personal data.

We have administrative, technical, and physical security measures in place, and we have policies and procedures in place to contractually require third parties to whom we transfer data to implement and maintain appropriate privacy and security measures. However, if our privacy and security measures or those of third party developers and vendors are inadequate or are breached as a result of third-party action, user error, employee error, malfeasance, malware, phishing, hacking attacks, system error, software bugs or defects in our products, trickery, process failure, or otherwise, and, as a result, there is improper disclosure of or someone obtains unauthorized access to or exfiltrates funds, cryptocurrencies, including bitcoin, or sensitive information, including personally identifiable information or protected health information, on our systems or our partners' systems, or if we suffer a ransomware or advanced persistent threat attack, or if any of the foregoing is reported or perceived to have occurred, our reputation and business could be damaged. If the sensitive information is lost or improperly accessed, disclosed, destroyed, or altered or threatened to be disclosed, destroyed, or altered, we could incur significant costs associated with remediation and the implementation of additional security measures, and may incur significant liability, financial loss, and be subject to litigation, regulatory scrutiny, investigations, proceedings, and penalties. We, our vendors, third party developers, or payment networks also may face delays in identifying or responding to security breaches or other security incidents, which may increase the significance of the foregoing potential consequences of a security breach or other security incident.

Under payment card rules and our contracts with our card processors, if there is a breach of payment card information that we store or that is stored by our sellers or other third parties with which we do business, we could be liable to the payment card issuing banks for their cost of issuing new cards and other related expenses. Additionally, if our own confidential business information were improperly disclosed, our business could be materially and adversely affected. A core aspect of our business is the reliability and security of our payments platform. Any perceived or actual breach of security, regardless of how it occurs or the extent of the breach, could have a significant impact on our reputation as a trusted brand, cause us to lose existing sellers or other customers, prevent us from obtaining new sellers and other customers, require us to expend significant funds to remedy problems caused by breaches and to implement measures to prevent further breaches, and expose us to legal risk and potential liability including those resulting from governmental or regulatory investigations, class action litigation, and costs associated with remediation, such as fraud monitoring and forensics. Any actual or perceived security breach at a company providing services to us or our customers could have similar effects. Further, any actual or perceived security breach with respect to the bitcoin and blockchain ledger, regardless of whether such breach directly affects our products and services, could have negative reputational effects and harm customer trust in us and our products and services.

While we maintain cybersecurity insurance, our insurance may be insufficient to cover all liabilities incurred by such attacks. We also cannot be certain that our insurance coverage will be adequate for data handling or data security liabilities actually incurred, that insurance will continue to be available to us on economically reasonable terms, or at all, or that any insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, including our financial condition, operating results, and reputation.

Our risk management efforts may not be effective, which could expose us to losses and liability and otherwise harm our business.

We offer managed payments and other products and services to a large number of customers. We vet and monitor these customers and the payments transactions we process for them as part of our risk management efforts. When our products and services are used to process illegitimate transactions, and we settle those funds to sellers and are unable to recover them, we suffer losses and liability. These types of illegitimate transactions can also expose us to governmental and regulatory sanctions and potentially prevent us from satisfying our contractual obligations to our third party partners, which may cause us to be in breach of our obligations. The highly automated nature of, and liquidity offered by, our payments services make us a target for illegal or improper uses, including fraudulent or illegal sales of goods or services, money laundering, and terrorist financing. Identity thieves and those committing fraud using stolen or fabricated credit card or bank account numbers, or other deceptive or malicious practices, potentially can steal significant amounts of money from businesses like ours. Our risk management policies, procedures, techniques, and processes may not be sufficient to identify all of the risks to which we are exposed, to enable us to prevent or mitigate the risks we have identified, or to identify additional risks to which we may become subject in the future. As a greater number of larger sellers use our services, our exposure to material risk losses from a single seller, or from a small number of sellers, will increase. Our current business and anticipated domestic and international growth will continue to place significant demands on our risk management and compliance efforts, and we will need to continue developing and improving our existing risk management infrastructure, techniques, and processes. In addition, when we introduce new services, expand existing services, including online payment acceptance, focus on new business areas, including consumer financing and installment loans, or begin to operate in markets where we have a limited history of fraud loss, we may be less able to forecast and carry appropriate reserves in our books for those losses. Furthermore, if our risk management policies and processes contain errors or are otherwise ineffective, we may suffer large financial losses, we may be subject to civil and criminal liability, and our business may be materially and adversely affected.

We are currently, and will continue to be, exposed to risks associated with chargebacks and refunds in connection with payment card fraud or relating to the goods or services provided by our sellers. In the event that a billing dispute between a cardholder and a seller is not resolved in favor of the seller, including in situations where the seller engaged in fraud, the transaction is typically “charged back” to the seller and the purchase price is credited or otherwise refunded to the cardholder. If we are unable to collect chargebacks or refunds from the seller’s account, or if the seller refuses to or is unable to reimburse us for chargebacks or refunds due to closure, bankruptcy, or other reasons, we may bear the loss for the amounts paid to the cardholder. Since October 2015, businesses that cannot process EMV chip cards are held financially responsible for certain fraudulent transactions conducted using chip-enabled cards. This has shifted an increased amount of the risk for certain fraudulent transactions from the issuing banks to these sellers, which has resulted in our having to seek an increased level of reimbursement for chargebacks from our sellers that do not deploy EMV-compliant card readers. Not all of the readers we offer to merchants are EMV-compliant. Our financial results would be adversely affected to the extent sellers do not fully reimburse us for the related chargebacks. We do not collect and maintain reserves from our sellers to cover these potential losses, and for customer relations purposes we sometimes decline to seek reimbursement for certain chargebacks. The risk of chargebacks is typically greater with those of our sellers that promise future delivery of goods and services, which we allow on our Square platform. If we are unable to maintain our losses from chargebacks at acceptable levels, the payment card networks could fine us, increase our transaction-based fees, or terminate our ability to process payment cards. Any increase in our transaction-based fees could damage our business, and if we were unable to accept payment cards, our business would be materially and adversely affected.

We derive a significant portion of our revenue from managed payments services. Our efforts to expand our product portfolio and market reach may not succeed and may reduce our revenue growth.

We derive a significant portion of our revenue from transaction-based fees we collect in connection with managed payments services. While we intend to continue to broaden the scope of products and services we offer, we may not be successful in deriving any significant revenue from these products and services. Failure to broaden the scope of products and services that are attractive may inhibit the growth of repeat business and harm our business, as well as increase the vulnerability of our core payments business to competitors offering a full suite of products and services. Furthermore, we may have limited or no experience in our newer markets. For example, we cannot assure you that any of our products or services will be widely accepted or that they will continue to grow in revenue. Our offerings may present new and difficult technological, operational, regulatory, and other challenges, and if we experience service disruptions, failures, or other issues, our business may be materially and adversely affected. Our newer activities may not recoup our investments in a timely manner or at all. If any of this were to occur, it could damage our reputation, limit our growth, and materially and adversely affect our business.

Our success depends on our ability to develop products and services to address the rapidly evolving market for payments and point-of-sale, financial, and marketing services, and, if we are not able to implement successful enhancements and new features for our products and services, our business could be materially and adversely affected.

We expect that new services and technologies applicable to the industries in which we operate will continue to emerge and evolve. Rapid and significant technological changes continue to confront the industries in which we operate, including developments in omnichannel commerce, proximity payment devices (including contactless payments via NFC technology), as well as developments in cryptocurrencies and in tokenization, which replaces sensitive data (e.g., payment card information) with symbols (tokens) to keep the data safe in the event that it ends up in the wrong hands.

These new services and technologies may be superior to, impair, or render obsolete the products and services we currently offer or the technologies we currently use to provide them. Incorporating new technologies into our products and services may require substantial expenditures and take considerable time, and we may not be successful in realizing a return on these development efforts in a timely manner or at all. There can be no assurance that any new products or services we develop and offer to our customers will achieve significant commercial acceptance. Our ability to develop new products and services may be inhibited by industry-wide standards, payment card networks, existing and future laws and regulations, resistance to change from our customers, which includes our sellers and their buyers, or third parties' intellectual property rights. Our success will depend on our ability to develop new technologies and to adapt to technological changes and evolving industry standards. If we are unable to provide enhancements and new features for our products and services or to develop new products and services that achieve market acceptance or that keep pace with rapid technological developments and evolving industry standards, our business would be materially and adversely affected.

The success of enhancements, new features, and products and services depends on several factors, including the timely completion, introduction, and market acceptance of the enhancements or new features, products, or services. We often rely not only on our own initiatives and innovations, but also on third parties, including some of our competitors, for the development of and access to new technologies and development of a robust market for these new products and technologies. Failure to accurately predict or to respond effectively to developments in our industry may significantly impair our business.

In addition, because our products and services are designed to operate with a variety of systems, infrastructures, and devices, we need to continuously modify and enhance our products and services to keep pace with changes in mobile, software, communications, and database technologies. Moreover, our success may depend on our ability to provide products and services that are tailored to specific needs and requirements of our customers. We may not be successful in developing such solutions, modifications, or enhancements or in bringing them to market in a timely and cost-effective manner. Any failure of our products and services to continue to operate effectively with third-party infrastructures and technologies could reduce the demand for our products and services, result in dissatisfaction of our customers, and materially and adversely affect our business.

Substantial and increasingly intense competition in our industry may harm our business.

We compete in markets characterized by vigorous competition, changing technology, changing customer needs, evolving industry standards, and frequent introductions of new products and services. We expect competition to intensify in the future as existing and new competitors introduce new services or enhance existing services. We compete against many companies to attract customers, and some of these companies have greater financial resources and substantially larger bases of customers than we do, which may provide them with significant competitive advantages. These companies may devote greater resources to the development, promotion, and sale of products and services, and they may offer lower prices or more effectively introduce their own innovative products and services that adversely impact our growth. Mergers and acquisitions by these companies may lead to even larger competitors with more resources. We also expect new entrants to offer competitive products and services. Certain sellers have long-standing exclusive, or nearly exclusive, relationships with our competitors to accept payment cards and other services that we offer. These relationships may make it difficult or cost-prohibitive for us to conduct material amounts of business with them. Competing services tied to established brands may engender greater confidence in the safety and efficacy of their services. If we are unable to differentiate ourselves from and successfully compete with our competitors, our business will be materially and adversely affected.

We may also face pricing pressures from competitors. Some potential competitors are able to offer lower prices to sellers for similar services by cross-subsidizing their payments services through other services they offer. Such competition may result in the need for us to alter the pricing we offer to our sellers and could reduce our gross profit. In addition, as we grow, sellers may demand more customized and favorable pricing from us, and competitive pressures may require us to agree to such pricing, further reducing our gross profit. We currently negotiate pricing discounts and other incentive arrangements with certain large sellers to increase acceptance and usage of our products and services. If we continue this practice and if an increasing proportion of our sellers are large sellers, we may have to increase the discounts or incentives we provide, which could also reduce our gross profit.

We are dependent on payment card networks and acquiring processors, and any changes to their rules or practices could harm our business.

Our business depends on our ability to accept credit and debit cards, and this ability is provided by the payment card networks, including Visa, MasterCard, American Express, and Discover. In a majority of these cases, we do not directly access the payment card networks that enable our acceptance of payment cards. As a result, we must rely on banks and acquiring processors to process transactions on our behalf. Our acquiring processor agreements have terms ranging from two to six years. Our three largest such agreements expire between the first quarter of 2020 and the third quarter of 2022, and we are currently in the process of negotiating a renewal of the agreement that expires in the first quarter of 2020. These banks and acquiring processors may fail or refuse to process transactions adequately, may breach their agreements with us, or may refuse to renegotiate or renew these agreements on terms that are favorable or commercially reasonable. They might also take actions that degrade the functionality of our services, impose additional costs or requirements on us, or give preferential treatment to competitive services, including their own services. If we are unsuccessful in establishing, renegotiating, or maintaining mutually beneficial relationships with these payment card networks, banks, and acquiring processors, our business may be harmed.

The payment card networks and our acquiring processors require us to comply with payment card network operating rules, including special operating rules that apply to us as a "payment facilitator" providing payment processing services to merchants. The payment card networks set these network rules and have discretion to interpret the rules and change them at any time. Changes to these network rules or how they are interpreted could have a significant impact on our business and financial results. For example, changes in the payment card network rules regarding chargebacks may affect our ability to dispute chargebacks and the amount of losses we incur from chargebacks. Any changes to or interpretations of the network rules that are inconsistent with the way we or our acquiring processors currently operate may require us to make changes to our business that could be costly or difficult to implement. If we fail to make such changes or otherwise resolve the issue with the payment card networks, the networks could fine us or prohibit us from processing payment cards. In addition, violations of the network rules or any failure to maintain good relationships with the payment card networks could impact our ability to receive incentives from them, could increase our costs, or could otherwise harm our business. If we were unable to accept payment cards or were limited in our ability to do so, our business would be materially and adversely affected.

We are required to pay interchange and assessment fees, processing fees, and bank settlement fees to third-party payment processors and financial institutions. From time to time, payment card networks have increased, and may increase in the future, the interchange fees and assessments that they charge for each transaction processed using their networks. Our acquiring processors and payment card networks may refuse to renew our agreements with them on terms that are favorable, commercially reasonable, or at all. For example, we are currently in the process of negotiating the renewal of one such agreement that expires in the first quarter of 2020. Interchange fees or assessments are also subject to change from time to time due to government regulation. Because we generally charge our sellers a flat rate for our managed payments services, rather than passing through interchange fees and assessments to our sellers directly, any increase or decrease in interchange fees or assessments or in the fees we pay to our acquiring processors could make our pricing look less competitive, lead us to change our pricing model, or adversely affect our margins.

We could be, and in the past have been, subject to penalties from payment card networks if we fail to detect that sellers are engaging in activities that are illegal, contrary to the payment card network operating rules, or considered "high risk." We must either prevent high-risk sellers from using our products and services or register such sellers with the payment card networks and conduct additional monitoring with respect to such sellers. Any such penalties could become material and could result in termination of our ability to accept payment cards or could require changes in our process for registering new sellers. This could materially and adversely affect our business.

We rely on third parties and their systems for a variety of services, including the processing of transaction data and settlement of funds to us and our sellers, and these third parties' failure to perform these services adequately could materially and adversely affect our business.

To provide our managed payments solution and other products and services, we rely on third parties that we do not control, such as the payment card networks, our acquiring and issuing processors, the payment card issuers, various financial institution partners (including those for Square Capital and Cash App), systems like the Federal Reserve Automated Clearing House, and other partners. We rely on these third parties for a variety of services, including the transmission of transaction data, processing of chargebacks and refunds, settlement of funds to our sellers, and the provision of information and other elements of our services. For example, we currently rely on three acquiring processors for each of the United States, Canada, and Japan and two for each of Australia and the United Kingdom. While we believe there are other acquiring processors that could meet our needs, adding or transitioning to new providers may significantly disrupt our business and increase our costs. In the event these third parties fail to provide these services adequately, including as a result of financial difficulty or insolvency, errors in their systems, outages or events beyond their control, or refuse to provide these services on terms acceptable to us or at all, and we are not able to find suitable alternatives, our business may be materially and adversely affected. We have in the past experienced outages with third parties we have worked with, which has affected the ability to process payments for cards we issued.

In addition, we use third-party technology and systems for a variety of our day-to-day business operations. Although we have developed systems and processes that are designed to prevent data loss, misuse, and other security breaches, including systems and processes designed to reduce the impact of a security breach at a third-party vendor, such measures cannot provide absolute security.

Our quarterly results of operations and operating metrics fluctuate significantly and are unpredictable and subject to seasonality, which could result in the trading price of our Class A common stock being unpredictable or declining.

Our quarterly results of operations have fluctuated significantly at times and are not necessarily an indication of future performance. These fluctuations may be due to a variety of factors, some of which are outside of our control and may not fully reflect the underlying performance of our business. Our limited operating history combined with the rapidly evolving markets in which we operate also contributes to these fluctuations. Fluctuations in quarterly results may materially and adversely affect the predictability of our business and the price of our Class A common stock.

Factors that may cause fluctuations in our quarterly financial results include our ability to attract and retain new customers; seasonality in our business or our sellers' business, including seasonal fluctuations in the amount of transactions our sellers are processing; the timing, effectiveness, and costs of expansion and upgrades of our systems and infrastructure, as well as the success of those expansions and upgrades; the outcomes of legal proceedings and claims; our ability to maintain or increase revenue, gross margins, and operating margins; our ability to continue introducing new products and services and to continue convincing customers to adopt additional offerings; increases in and timing of expenses that we may incur to grow and expand our operations and to remain competitive, including acquisitions, divestitures, and other strategic transactions and related transaction and integration costs; period-to-period volatility related to fraud and risk losses; system failures resulting in the inaccessibility of our products and services; changes in the regulatory environment, including with respect to security, privacy, data protection or enforcement of laws and regulations by regulators, including fines, orders, or consent decrees; changes in global business or macroeconomic conditions; unusual weather conditions or natural disasters; general retail buying patterns; and the other risks described in this Quarterly Report on Form 10-Q. In addition, from time to time we make investments in equity that is, or may become, publicly held. We may experience volatility due to changes in the market prices of such equity investments, which may be material to our results in any given quarter and may cause our stock price to decline.

We depend on key management, as well as our experienced and capable employees, and any failure to attract, motivate, and retain our employees could harm our ability to maintain and grow our business.

Our future success is significantly dependent upon the continued service of our executives and other key employees. If we lose the services of any member of management or any key personnel, we may not be able to locate a suitable or qualified replacement, and we may incur additional expenses to recruit and train a replacement, which could severely disrupt our business and growth. Jack Dorsey, our co-founder, President, and Chief Executive Officer, also serves as Chief Executive Officer of Twitter, Inc. This may at times adversely affect his ability to devote time, attention, and effort to Square.

To maintain and grow our business, we will need to identify, hire, develop, motivate, and retain highly skilled employees. Identifying, recruiting, training, integrating, and retaining qualified individuals requires significant time, expense, and attention. In addition, from time to time, there may be changes in our management team that may be disruptive to our business. If our management team, including any new hires that we make, fails to work together effectively and to execute our plans and strategies on a timely basis, our business could be harmed. Competition for highly skilled personnel is intense, particularly in the San Francisco Bay Area where our headquarters are located. We may need to invest significant amounts of cash and equity to attract and retain new employees, and we may never realize returns on these investments. Additionally, potential changes in U.S. immigration policy may make it difficult to renew or obtain visas for any highly skilled personnel that we have hired or are actively recruiting. Negative sentiments towards the United States as a result of these potential changes may also adversely affect our international recruiting efforts. Furthermore, our international expansion and our business in general may be materially adversely affected if legislative or administrative changes to immigration or visa laws and regulations impair our hiring processes or projects involving personnel who are not citizens of the country where the work is to be performed. If we are not able to add and retain employees effectively, our ability to achieve our strategic objectives will be adversely affected, and our business and growth prospects will be harmed.

If we do not continue to improve our operational, financial, and other internal controls and systems to manage growth effectively, our business could be harmed.

Our current business and anticipated growth will continue to place significant demands on our management and other resources. In order to manage our growth effectively, we must continue to strengthen our existing infrastructure and operational procedures, enhance our internal controls and reporting systems, and ensure we timely and accurately address issues as they arise. In particular, our continued growth will increase the challenges involved in:

- improving and implementing existing and developing new internal administrative infrastructure, particularly our operational, financial, communications, and other internal systems and procedures;
- installing enhanced management information and control systems; and
- preserving our core values, strategies, and goals and effectively communicating these to our employees worldwide.

If we are not successful in developing and implementing the right processes and tools to manage our enterprise, our ability to compete successfully and achieve our business objectives could be impaired.

These efforts may require substantial financial expenditures, commitments of resources, developments of our processes, and other investments and innovations. As we grow, we must balance the need for additional controls and systems with the ability to efficiently develop and launch new features for our products and services. However, it is likely that as we grow, we will not be able to launch new features, or respond to customer or market demands as quickly as a smaller, more efficient organization. If we do not successfully manage our growth, our business will suffer.

A deterioration of general macroeconomic conditions could materially and adversely affect our business and financial results.

Our performance is subject to economic conditions and their impact on levels of spending by businesses and their customers. Most of the sellers that use our services are small businesses, many of which are in the early stages of their development, and these businesses may be disproportionately adversely affected by economic downturns and may fail at a higher rate than larger or more established businesses. If spending by their customers declines, these businesses would experience reduced sales and process fewer payments with us or, if they cease to operate, stop using our products and services altogether. Small businesses frequently have limited budgets and limited access to capital, and they may choose to allocate their spending to items other than our financial or marketing services, especially in times of economic uncertainty or in recessions. In addition, if more of our sellers cease to operate, this may have an adverse impact not only on the growth of our payments services but also on our transaction and advance loss rates, and the success of our other services. For example, if sellers processing payments with us receive chargebacks after they cease to operate, we may incur additional losses. Additionally, the growth in the number of sellers qualifying for participation in the Square Capital program may slow, or business loans may be paid more slowly, or not at all. In addition, as we expand our business to offer consumer financing products, those customers may also be disproportionately adversely affected by economic downturns. Further, our suppliers, distributors and other third party partners may suffer their own financial and economic challenges. Such suppliers and third parties may demand pricing accommodations, delay payment or become insolvent, which could harm our ability to meet end customer demands or collect revenue or otherwise could harm our business. Furthermore, our investment portfolio, which includes U.S. government and corporate securities, is subject to general credit, liquidity, market, and interest rate risks, which may be exacerbated by certain events that affect the global financial markets. If global credit and equity markets decline for extended periods, or if there is a downgrade of the securities within our portfolio, the investment portfolio may be adversely affected and we could determine that our investments have experienced an other-than-temporary decline in fair value, requiring impairment charges that could adversely affect our financial results. Thus, if general macroeconomic conditions deteriorate, our business and financial results could be materially and adversely affected.

We are also monitoring developments related to the decision by the U.K. government to leave the European Union (EU) following a referendum in June 2016 in which voters in the United Kingdom approved an exit from the EU (often referred to as "Brexit"), which could have significant implications for our business. In March 2017, the United Kingdom began the official process to leave the EU by March 2019, but this deadline has since been extended. Brexit could lead to economic and legal uncertainty, including significant volatility in global stock markets and currency exchange rates, and increasingly divergent laws, regulations, and licensing requirements for the Company as the United Kingdom determines which EU laws to replace or replicate. Any of these effects of Brexit, among others, could adversely affect our operations and financial results.

We may have exposure to greater-than-anticipated tax liabilities, which may materially and adversely affect our business.

We are subject to income taxes and non-income taxes in the United States and other countries in which we transact or conduct business, and such laws and rates vary by jurisdiction. We are subject to review and audit by U.S. federal, state, local, and foreign tax authorities. Such tax authorities may disagree with tax positions we take and if any such tax authority were to successfully challenge any such position, our financial results and operations could be materially and adversely affected. For example, the Office of the Treasurer and Tax Collector of the City and County of San Francisco (the "Tax Collector") has issued a decision regarding the Company's classification of its business activities. Although we disagree with the Tax Collector's decision and contest this classification, the ultimate resolution is uncertain. We are taking steps to vigorously pursue all available remedies, including challenging the classification of our primary business activity, challenging the applicable tax rate used, and filing a lawsuit against the Tax Collector. See “Litigation” in Note 19 of the accompanying notes to our condensed consolidated financial statements. If the Company does not prevail and is otherwise unable to mitigate the impact of this tax, we could be obligated to pay additional taxes, together with any associated penalties and interest. This may adversely affect our cash flows, financial condition, and results of operations. An unfavorable outcome in this tax dispute may also limit our ability to retain and grow our work force in San Francisco. In addition, our tax liability could be adversely affected by changes in tax laws, rates, and regulations. For example, on November 6, 2018, residents of the City and County of San Francisco approved a ballot measure that increases taxes on certain entities' gross receipts beginning January 1, 2019. The determination of our worldwide provision for income and other taxes is highly complex and requires significant judgment, and there are many transactions and calculations where the ultimate tax determination is uncertain. Although we believe our estimates are reasonable, the amount ultimately payable may differ from amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made.

Expanding our business globally could subject us to new challenges and risks.

We currently offer our services and products in multiple countries and plan to continue expanding our business further globally. Expansion, whether in our existing or new global markets, will require additional resources and controls, and offering our services in new geographic regions often requires substantial expenditures and takes considerable time. We may not be successful enough in these new geographies to recoup our investments in a timely manner or at all. Such expansion could also subject our business to substantial risks, including:

- difficulty in attracting a sufficient number of sellers;
- failure to anticipate competitive conditions;
- conformity with applicable business customs, including translation into foreign languages and associated expenses;
- increased costs and difficulty in protecting intellectual property and sensitive data;
- changes to the way we do business as compared with our current operations or a lack of acceptance of our products and services;
- the ability to support and integrate with local third-party service providers;
- competition with service providers or other entrenched market-players that have greater experience in the local markets than we do;
- difficulties in staffing and managing foreign operations in an environment of diverse culture, laws, and customs, challenges caused by distance, language, and cultural differences, and the increased travel, infrastructure, and legal and compliance costs associated with global operations;
- difficulties in recruiting and retaining qualified employees and maintaining our company culture;

- difficulty in gaining acceptance from industry self-regulatory bodies;
- compliance with multiple, potentially conflicting and changing governmental laws and regulations, including with respect to payments, data privacy, data protection, and information security;
- compliance with U.S. and foreign anti-corruption, anti-bribery, and anti-money laundering laws;
- potential tariffs, sanctions, fines, or other trade restrictions;
- exchange rate risk;
- compliance with potentially conflicting and changing laws of taxing jurisdictions where we conduct business and applicable U.S. tax laws, the complexity and adverse consequences of such tax laws and potentially adverse tax consequences due to changes in such tax laws; and
- regional economic and political instability.

As a result of these risks, our efforts to expand our global operations may not be successful, which could limit our ability to grow our business.

Any acquisitions, strategic investments, entries into new businesses, joint ventures, divestitures, and other transactions could fail to achieve strategic objectives, disrupt our ongoing operations or result in operating difficulties, liabilities and expenses, harm our business, and negatively impact our results of operations.

In pursuing our business strategy, we routinely conduct discussions and evaluate opportunities for possible acquisitions, strategic investments, entries into new businesses, joint ventures, divestitures, and other transactions. We have in the past acquired or invested in, and we continue to seek to acquire or invest, in businesses, apps, technologies, services, products, or other assets that we believe could complement or expand our products and services, enhance our technical capabilities, or otherwise offer opportunities for our business. The identification, evaluation, and negotiation of potential acquisitions, investments, joint ventures, entries into new businesses, divestitures, or other transactions may divert the attention of management and entail various expenses, whether or not such transactions are ultimately completed. There can be no assurance that we will be successful in identifying, negotiating, and consummating favorable transaction opportunities. In addition to transaction and opportunity costs, these transactions involve large challenges and risks, whether or not such transactions are completed, any of which could harm our business and negatively impact our results of operations, including risks that:

- the transaction may not advance our business strategy;
- we may spend time and resources on opportunities that we are unable to consummate on terms acceptable to us;
- the transaction may not close or may be delayed;
- we may not be able to secure required regulatory approvals or otherwise satisfy closing conditions for a proposed transaction in a timely manner, or at all;
- the transaction may subject us to additional regulatory burdens that affect our business in potentially unanticipated and significantly negative ways;
- we may not realize a satisfactory return or increase our revenue;
- we may experience difficulty, and may not be successful in, integrating technologies, IT systems, data processing methods and policies, accounting systems, culture, or management or other personnel of the acquired business and we may not realize the expected synergies of the transaction in a timely manner, or at all;
- we may incur significant acquisition costs and transition costs, including in connection with the assumption of ongoing expenses of the acquired business;
- the transaction may divert management’s attention and resources, which may cause disruptions in our ongoing operations;

- we may not realize the expected benefits from the transaction in the expected time period, or at all;
- we may be unable to retain key personnel;
- acquired businesses or businesses in which we invest may not have adequate controls, processes and procedures to ensure compliance with laws and regulations, including with respect to data privacy and security, and our due diligence process may not identify compliance issues or other liabilities;
- we may incur substantial liabilities associated with the activities or conduct of the acquired business, including legal and regulatory claims or disputes, violations of laws and regulations, and other liabilities, whether known or unknown;
- we may fail to identify or assess the magnitude of certain liabilities, shortcomings, or other circumstances prior to acquiring or investing in a business, which could result in additional financial, legal, or regulatory exposure, which may subject us to additional controls, policies, procedures, liabilities, litigation, costs of compliance or remediation, or other adverse effects on our business, operating results, or financial condition;
- we may have difficulty entering into new market segments;
- we may be unable to retain the customers, vendors, and partners of acquired businesses;
- there may be lawsuits or regulatory actions resulting from the transaction;
- there may be risks associated with undetected cyberattacks or security breaches at companies that we acquire or with which we may combine or partner;
- there may be regulatory constraints, including competition regulations that may affect the extent to which we can maximize the value of our acquisitions or investments;
- there may be local and foreign regulations applicable to the international activities of our business and the businesses we acquire;
- there may be risks associated with the complexity of entering into and effectively managing joint ventures, strategic investments, and other strategic partnerships;
- acquisitions could result in dilutive issuances of equity securities or the incurrence of debt; and
- our business, the acquired business, or the integrated business may be adversely affected by other political, business, and general economic conditions.

We may also choose to divest certain businesses or product lines. For example, in July 2019, we entered into a definitive agreement to sell our Caviar business. This transaction closed on October 31, 2019. If we decide to sell assets or a business, we may have difficulty obtaining terms acceptable to us in a timely manner, or at all. Additionally, we may experience difficulty separating out portions of or entire businesses, incur potential loss of revenue or experience negative impact on margins, or we may not achieve the desired strategic and financial benefits. Such potential transactions may also delay achievement of our strategic objectives, cause us to incur additional expenses, potentially disrupt customer or employee relationships, and expose us to unanticipated or ongoing obligations and liabilities, including as a result of our indemnification obligations, and divert management and our employees' time and attention. Further, during the pendency of a divestiture, we may be subject to risks related to a decline in the business, loss of employees, customers, or suppliers and the risk that the transaction may not close, any of which would have a material adverse effect on the business to be divested and the Company. If a divestiture is not completed for any reason, we may not be able to find another buyer on the same terms, and we may have incurred significant costs without the corresponding benefit.

Joint ventures and minority investments inherently involve a lesser degree of control over business operations, thereby potentially increasing the financial, legal, operational, and/or compliance risks associated with the joint venture or minority investment. In addition, we may be dependent on joint venture partners, controlling shareholders, management, or other persons or entities who control them and who may have business interests, strategies, or goals that are inconsistent with ours. Business decisions or other actions or omissions of the joint venture partners, controlling shareholders, management, or other persons or entities who control them may adversely affect the value of our investment, result in litigation or regulatory action against us, and may otherwise damage our reputation and brand.

Our services must integrate with a variety of operating systems, and the hardware that enables merchants to accept payment cards must interoperate with third-party mobile devices utilizing those operating systems. If we are unable to ensure that our services or hardware interoperate with such operating systems and devices, our business may be materially and adversely affected.

We are dependent on the ability of our products and services to integrate with a variety of operating systems, as well as web browsers that we do not control. Any changes in these systems that degrade the functionality of our products and services, impose additional costs or requirements on us, or give preferential treatment to competitive services, including their own services, could materially and adversely affect usage of our products and services. In addition, we rely on app marketplaces, such as the Apple App Store and Google Play, to drive downloads of our mobile apps, such as Square Point of Sale, Square Payroll, Square Invoices, Cash App, Caviar, and any future apps. Apple, Google, or other operators of app marketplaces regularly make changes to their marketplaces, and those changes may make access to our products and services more difficult. In the event that it is difficult for our customers to access and use our products and services, our business may be materially and adversely affected. Furthermore, Apple, Google, or other operators of app marketplaces regularly provide software updates, and such software updates may not operate effectively with our products and services, which may reduce the demand for our products and services, result in dissatisfaction by our customers, and may materially and adversely affect our business.

In addition, our hardware interoperates with wired and wireless interfaces to mobile devices developed by third parties. For example, the current versions of our magstripe reader plug into an audio jack or a Lightning connector. The use of these connection types could change, and such changes and other potential changes in the design of future mobile devices could limit the interoperability of our hardware and software with such devices and require modifications to our hardware or software. If we are unable to ensure that our hardware and software continue to interoperate effectively with such devices, if doing so is costly, or if existing merchants decide not to utilize additional parts necessary for interoperability, our business may be materially and adversely affected.

Many of our key components are procured from a single or limited number of suppliers. Thus, we are at risk of shortage, price increases, tariffs, changes, delay, or discontinuation of key components, which could disrupt and materially and adversely affect our business.

Many of the key components used to manufacture our products, such as the custom parts of our magstripe reader, including its magnetic stripe-reading element, its plastic cover, and its application-specific integrated circuits, come from limited or single sources of supply, as do the plastic cover, connector, and security cage of our contactless and chip reader. In addition, in some cases, we rely only on one manufacturer to fabricate, test, and assemble our products. For example, a single manufacturer assembles our magstripe reader and our contactless and chip reader, as well as manufactures those products' plastic parts with custom tools that we own but that they maintain on their premises. The term of the agreement with that manufacturer automatically renews for consecutive one-year periods unless either party provides notice of non-renewal. In general, our contract manufacturers fabricate or procure components on our behalf, subject to certain approved procedures or supplier lists, and we do not have firm commitments from all of these manufacturers to provide all components, or to provide them in quantities and on timelines that we may require. For example, pursuant to a development and supply agreement, a component supplier provides design, development, customization, and related services for components of the magnetic stripe-reading element in some of our products. The term of the agreement extends through March 2021 and then renews for consecutive one-year periods unless either party provides notice of non-renewal. Similarly, a component provider develops certain application-specific integrated circuits for our products pursuant to our designs and specifications. The term of our agreement with this provider renews for successive two-year terms unless either party provides notice of non-renewal.

Due to our reliance on the components or products produced by suppliers such as these, we are subject to the risk of shortages and long lead times in the supply of certain components or products. Our ongoing efforts to identify alternative manufacturers for the assembly of our products and for many of the single-sourced components used in our products may not be successful. In the case of off-the-shelf components, we are subject to the risk that our suppliers may discontinue or modify them, or that the components may cease to be available on commercially reasonable terms, or at all. We have in the past experienced, and may in the future experience, component shortages or delays or other problems in product assembly, and the availability of these components or products may be difficult to predict. For example, our manufacturers may experience temporary or permanent disruptions in their manufacturing operations due to equipment breakdowns, labor strikes or shortages, natural disasters, component or material shortages, cost increases, acquisitions, insolvency, trade restrictions, changes in legal or regulatory requirements, or other similar problems.

Additionally, various sources of supply-chain risk, including strikes or shutdowns at delivery ports or loss of or damage to our products while they are in transit or storage, intellectual property theft, losses due to tampering, third-party vendor issues with quality or sourcing control, failure by our suppliers to comply with applicable laws and regulation, potential tariffs or other trade restrictions, or other similar problems could limit or delay the supply of our products or harm our reputation. In the event of a shortage or supply interruption from suppliers of these components, we may not be able to develop alternate sources quickly, cost-effectively, or at all. Any interruption or delay in manufacturing, component supply, any increases in component costs, or the inability to obtain these parts or components from alternate sources at acceptable prices and within a reasonable amount of time, would harm our ability to provide our products to sellers on a timely basis. This could harm our relationships with our sellers, prevent us from acquiring new sellers, and materially and adversely affect our business.

In September of 2018, the United States imposed tariffs on certain imports from China, including on some of our hardware devices manufactured in China. The tariffs on these products were initially set at 10%, but were increased to 25% in May 2019. On September 1, 2019, the United States imposed new tariffs at 15% on additional imports from China, including on our remaining hardware products manufactured there. The tariffs negatively affect the gross margin on the impacted products, which only partially has been offset by adjustments to the prices of some of the affected products. Any future tariffs and actions related to items imported from China or elsewhere could negatively impact our gross margin on the impacted products, and increases in pricing as a result of tariffs could reduce the competitiveness of our products. The impact of any increased or new tariffs or other trade restrictions could have a material adverse effect on our business, financial condition, and results of future operations.

Our business could be harmed if we are unable to accurately forecast demand for our products and to adequately manage our product inventory.

We invest broadly in our business, and such investments are driven by our expectations of the future success of a product. For example, our products such as the Square Reader often require investments with long lead times. An inability to correctly forecast the success of a particular product could harm our business. We must forecast inventory needs and expenses and place orders sufficiently in advance with our third-party suppliers and contract manufacturers based on our estimates of future demand for particular products. Our ability to accurately forecast demand for our products could be affected by many factors, including an increase or decrease in demand for our products or for our competitors' products, unanticipated changes in general market conditions, and a change in economic conditions.

If we underestimate demand for a particular product, our contract manufacturers and suppliers may not be able to deliver sufficient quantities of that product to meet our requirements, and we may experience a shortage of that product available for sale or distribution. The shortage of a popular product could materially and adversely affect our brand, our seller relationships, and the acquisition of additional sellers. If we overestimate demand for a particular product, we may experience excess inventory levels for that product and the excess inventory may become obsolete or out-of-date. Inventory levels in excess of demand may result in inventory write-downs or write-offs and the sale of excess inventory at further discounted prices, which could negatively impact our gross profit and our business.

Our products and services may not function as intended due to errors in our software, hardware, and systems, product defects, or due to security breaches or human error in administering these systems, which could materially and adversely affect our business.

Our software, hardware, systems, and processes may contain undetected errors or vulnerabilities that could have a material adverse effect on our business, particularly to the extent such errors or vulnerabilities are not detected and remedied quickly. We have from time to time found defects in our customer-facing software and hardware, internal systems, and technical integrations with third-party systems, and new errors or vulnerabilities may be introduced in the future. If there are such errors or defects in our software, hardware, or systems, we may face negative publicity, government investigations, and litigation. Additionally, we rely on a limited number of component and product suppliers located outside of the U.S. to manufacture our products. As a result, our direct control over production and distribution is limited and it is uncertain what effect such diminished control will have on the quality of our products. If there are defects in the manufacture of our hardware products, we may face similar negative publicity, investigations, and litigation, and we may not be fully compensated by our suppliers for any financial or other liability that we suffer as a result. As our hardware continues to increase in size and complexity, these risks may correspondingly increase as well.

In addition, we provide frequent incremental releases of product and service updates and functional enhancements, which increase the possibility of errors. The products and services we provide are designed to process complex transactions and deliver reports and other information related to those transactions, all at high volumes and processing speeds. Any errors, data leaks, defects, security breaches such as cyber-attacks or identity theft, sabotage, malfeasance, disruptions in services, or other performance problems with our products or services caused by external or internal actors could hurt our reputation and damage our customers' businesses. Software and system errors, or human error, could delay or inhibit settlement of payments, result in oversettlement, cause reporting errors, or prevent us from collecting transaction-based fees, all of which have occurred in the past. Similarly, security breaches such as cyber-attacks or identity theft could disrupt the proper functioning of our software products or services, cause errors, allow unauthorized access, or disclosure of, to sensitive, proprietary, or confidential information of ours or our customers, and other destructive outcomes. Moreover, security breaches or errors in our hardware design or manufacture could cause product safety issues typical of consumer electronics devices. Such issues could lead to product recalls and inventory shortages, result in costly and time-consuming efforts to redesign and redistribute our products, give rise to regulatory inquiries and investigations, and result in lawsuits and other liabilities and losses, which could have a material and adverse effect on our business.

Additionally, electronic payment products and services, including ours, have been, and could continue to be in the future, specifically targeted and penetrated or disrupted by hackers. Because the techniques used to obtain unauthorized access to data, products, and services and to disable, alter, degrade, or sabotage them change frequently and may be difficult to detect or remediate for long periods of time, we and our customers may be unable to anticipate these techniques or implement adequate preventative measures to stop them, and our data encryption and other security measures may be unable to prevent unauthorized use by hackers. If we or our sellers are unable to anticipate or prevent these attacks, our sellers' businesses may be harmed, our reputation could be damaged, and we could incur significant liability. While we maintain cybersecurity insurance, our insurance may be insufficient to cover all liabilities incurred by these attacks.

Systems failures, interruptions, delays in service, catastrophic events, and resulting interruptions in the availability of our products or services, or those of our sellers, could harm our business and our brand, and subject us to substantial liability.

Our systems and those of our third-party vendors, including data center facilities, may experience service interruptions, denial-of-service and other cyber-attacks and security incidents, human error, earthquakes, hurricanes, floods, fires, other natural disasters, power losses, disruptions in telecommunications services, fraud, military or political conflicts, terrorist attacks and other geopolitical unrest, computer viruses, changes in social, political or regulatory conditions or in laws and policies, or other changes or events. Our systems and facilities are also subject to break-ins, sabotage, and acts of vandalism. Some of our systems are not fully redundant, and our disaster-recovery planning is not sufficient for all eventualities. In addition, as a provider of payments solutions and other financial services, we are subject to increased scrutiny by regulators that may require specific business continuity and disaster recovery plans and more rigorous testing of such plans. This increased scrutiny may be costly and time-consuming and may divert our resources from other business priorities.

We have experienced and will likely continue to experience denial-of-service and other cyber-attacks, system failures, security incidents, and other events or conditions that interrupt the availability or reduce the speed or functionality of our products and services. These events have resulted and likely will result in loss of revenue. In addition, they could result in significant expense to repair or replace damaged equipment and remedy resultant data loss or corruption. A prolonged interruption in the availability or reduction in the speed or other functionality of our products or services could materially harm our reputation and business. Frequent or persistent interruptions in our products and services could cause customers to believe that our products and services are unreliable, leading them to switch to our competitors or to avoid our products and services, and could permanently harm our reputation and business. Moreover, to the extent that any system failure or similar event results in damages to customers or their businesses, these customers could seek compensation from us for their losses, and those claims, even if unsuccessful, would likely be time-consuming and costly for us to address.

A significant natural or man-made disaster could have a material and adverse impact on our business. Our headquarters and certain of our data center facilities are located in the San Francisco Bay Area, a region known for seismic activity. Despite any precautions we may take, the occurrence of a natural disaster or other unanticipated problems at our headquarters or data centers could result in lengthy interruptions in our services or could result in related liabilities. We have implemented a disaster recovery program, which enables us to move production to a back-up data center and employees to a distributed workplace plan in the event of a catastrophe. Although this program is functional, it may prove to be inadequate, increasing the risk of interruptions in our services, which could have a material and adverse impact on our business. We do not maintain insurance sufficient to compensate us for the potentially significant losses that could result from disruptions to our services.

Significant natural or other disasters could also have a material and adverse impact on our sellers, which, in the aggregate, could in turn adversely affect our results of operations.

The loss or destruction of a private key required to access our bitcoin may be irreversible. If we are unable to access our private keys or if we experience a hack or other data loss relating to the bitcoins we hold on behalf of customers, our customers may be unable to access their bitcoins and it could harm customer trust in us and our products.

Bitcoins are controllable only by the possessor of both the unique public key and private key relating to the local or online digital wallet in which the bitcoins are held. While the bitcoin and blockchain ledger require a public key relating to a digital wallet to be published when used in a transaction, private keys must be safeguarded and kept private in order to prevent a third party from accessing the bitcoins held in such wallet. To the extent our private key is lost, destroyed, or otherwise compromised and no backup of the private key is accessible, we will be unable to access the bitcoins held in the related digital wallet. Further, we cannot provide assurance that our wallet will not be hacked or compromised. The bitcoin and blockchain ledger, as well as other cryptocurrencies and blockchain technologies, have been, and may in the future be, subject to security breaches, hacking, or other malicious activities. Any loss of private keys relating to, or hack or other compromise of, digital wallets used to store our customers' bitcoins could adversely affect our customers' ability to access or sell their bitcoins and could harm customer trust in us and our products. Additionally, any loss of private keys relating to, or hack or other compromise of, digital wallets used by third parties to store bitcoins or other cryptocurrencies could have negative reputational effects on us and harm customer trust in us and our products.

Square Capital is subject to additional risks relating to the availability of capital, seller payments, availability and structure of its bank partnership, expansion of its products, and general macroeconomic conditions.

Square Capital, which includes our wholly owned subsidiary Square Capital, LLC, is subject to risks in addition to those described elsewhere in this Quarterly Report on Form 10-Q. Maintaining and growing Square Capital is dependent on institutional third-party investors purchasing the eligible business loans originated by our bank partner. If such third parties fail to continue to purchase such business loans or reduce the amount of future loans they purchase, then our bank partner may need to reduce originations, or we would need to fund the purchase of additional business loans from our own resources. We then may have to reduce the scale of Square Capital, which could have a direct impact on our ability to grow. Additionally, Square Capital has certain customary repurchase obligations in its loan purchase and servicing agreements with such institutional third party investors for breaches of certain eligibility representations and warranties. If third parties reduce the price they are willing to pay for these business loans or reduce the servicing fees they pay us in exchange for servicing the business loans on their behalf, then the financial performance of Square Capital would be harmed.

The business loans are generally unsecured obligations of our Square sellers who utilize Square Capital, and they are not guaranteed or insured in any way. Adverse changes in macroeconomic conditions or the credit quality of our Square sellers could cause some Square sellers who utilize Square Capital to cease operating or to experience a decline in their payment processing volume, thereby rendering them unable to make payment on the business loan and/or extend the repayment period beyond the contractual repayment terms on the business loan. To the extent a seller breaches a contractual obligation, such as the requirement to make minimum payments or other breach, the seller would be liable for an accelerated business loan repayment, where Square Capital's recourse is to the business and not to any individual or other asset. In addition, because the servicing fees we receive from third party investors depend on the collectability of the business loans, if there is an increase in Square sellers who utilize Square Capital who are unable to make repayment of business loans, we will be unable to collect our entire servicing fee for such loans.

In addition, adverse changes in macroeconomic conditions could lead to a decrease in the number of sellers eligible for Square Capital facilitated business loans and strain our ability to correctly identify such sellers on behalf of our bank partner or manage the risk of non-payment or fraud as servicer of the business loans. Similarly, if we fail to correctly predict the likelihood of timely repayment of the business loans or correctly price the business loans to sellers utilizing Square Capital, our business may be materially and adversely affected. As we expand our business to offer consumer financing products and business loans to merchants outside of Square sellers, those customers may also be adversely affected by economic downturns.

We have partnered, on a non-exclusive basis, with a Utah-chartered, member FDIC industrial bank to originate the loans. Such bank may offer products that compete with ours. The bank is subject to oversight both by the FDIC and the State of Utah. Due to the fact that we are a service-provider to our bank partner, we are subject to audit standards for third-party vendors in accordance with FDIC guidance and examinations by the FDIC. There has been, and may continue to be, regulatory interest in and/or litigation challenging partnered lending arrangements where a bank makes loans and then sells and assigns such loans to a non-bank entity that is engaged in assisting with the origination and servicing of the loan. If our bank partner ceases to partner with us, ceases to abide by the terms of our agreement with them, or cannot partner with us on commercially reasonable terms, and we are not able to find suitable alternatives and/or make business loans ourselves pursuant to state licensing requirements, Square Capital may need to enter into a new partnership with another qualified financial institution, revert to the merchant cash advance (MCA) model, or pursue an alternative model for originating business loans, all of which may be time-consuming and costly and/or lead to a loss of institutional third-party investors willing to purchase such business loans or MCAs, and as a result Square Capital may be materially and adversely affected.

We intend to continue to explore other products, models, and structures for Square Capital, including forming a Utah industrial loan corporation, offering consumer financing, and other forms of credit and loan products. Some of those models or structures may require, or be deemed to require, additional data, procedures, partnerships, licenses, regulatory approvals, or capabilities that we have not yet obtained or developed. The licenses required in connection with our lending program and other activities related to the Square Capital program subject us to reporting requirements, bonding requirements, and inspection by applicable state regulatory agencies. Should we fail to expand and evolve Square Capital in this manner, or should these new products, models or structures, or new regulations or interpretations of existing regulations, impose requirements on us that are impractical or that we cannot satisfy, the future growth and success of Square Capital may be materially and adversely affected.

Our business is subject to extensive regulation and oversight in a variety of areas, all of which are subject to change and uncertain interpretation.

We are subject to a wide variety of local, state, federal, and international laws, regulations, licensing schemes, and industry standards in the United States and in other countries in which we operate. These laws, regulations, and standards govern numerous areas that are important to our business, including, but not limited to, consumer protection, privacy, information security, fair lending, financial services, securities, labor and employment, immigration, import and export practices, product labeling, competition, data protection, and marketing and communications practices. Such laws, regulations, and standards are subject to changes and evolving interpretations and application, including by means of legislative changes and/or executive orders, and it can be difficult to predict how they may be applied to our business and the way we conduct our operations, particularly as we introduce new products and services and expand into new jurisdictions. Any perceived or actual breach of laws, regulations, and standards could result in investigations, regulatory inquiries, litigation, fines, injunctions, negative customer sentiment, impairment of our existing or planned products and services, or otherwise negatively impact our business.

In particular, as we seek to build a trusted and secure platform for commerce, and as we expand our network of customers and facilitate their transactions and interactions with one another or otherwise evolve our products and services, we will increasingly be subject to laws and regulations relating to the collection, use, retention, privacy, security, and transfer of information, including personally identifiable information of our employees and customers. As with the other laws and regulations noted above, these laws and regulations may change or be interpreted and applied differently over time and from jurisdiction to jurisdiction, and it is possible they will be interpreted and applied in ways that will materially and adversely affect our business. For example, the European Parliament and the Council of the European Union adopted a General Data Protection Regulation (GDPR), which became effective in May 2018, superseding previous EU data protection legislation. The GDPR imposes more stringent data privacy and data protection requirements than prior EU data protection law and provides for greater penalties for noncompliance of up to the greater of 4% of worldwide annual revenue or €20 million. To address data transfers from the EU to other jurisdictions, we in certain cases utilize model contracts approved by the EU Commission. These model contracts have been legally challenged, and it is possible that they will be voided or modified, which could materially impact our ability to transfer personal data from the EU to other jurisdictions. In the United Kingdom, although a Data Protection Act that substantially implements the GDPR became law in May 2018, uncertainty remains regarding how data transfers to and from the U.K. will be regulated. The U.K.'s anticipated exit from the EU has created uncertainty with regard to the regulation of data protection in the UK and data transfers between the U.K., the EU, and other jurisdictions and could require us to make additional changes to the way we conduct our business and transmit data between the U.S., the U.K., the EU, and the rest of the world.

Likewise, the California Consumer Privacy Act of 2018 (CCPA) will become effective on January 1, 2020. The CCPA imposes stringent data privacy and data protection requirements for the data of California residents, and provides for penalties for noncompliance of up to $7,500 per violation. The CCPA was amended in September 2018, and further amendments were passed in September 2019 and are awaiting signature by Governor Newsom. It remains unclear how various provisions of the CCPA will be interpreted and enforced. More generally, data privacy and security continues to be a rapidly evolving area, and further legislative activity has arisen will likely continue to arise in the U.S., the EU, and other jurisdictions. For example, a California ballot initiative that builds upon CCPA has been introduced for the November 2020 election, other states in the U.S. have proposed or enacted laws regarding privacy and data protection that contain obligations similar to the CCPA, and the federal government is contemplating federal privacy legislation. The effects of recently proposed or enacted legislation, including CCPA, potentially are far-reaching and may require us to modify our data processing practices and policies and to incur substantial costs and expenses in an effort to comply. In addition, U.S. and international laws that have been applied to protect user privacy and data security (including laws regarding unfair and deceptive practices in the U.S. and the GDPR in the EU) may be subject to evolving interpretations or applications in light of privacy developments.

We have incurred, and may continue to incur, significant expenses to comply with evolving mandatory privacy and security standards and protocols imposed by law, regulation, industry standards, shifting consumer expectations, or contractual obligations. We post on our website our privacy policies and practices concerning the collection, use, and disclosure of information. In particular, with laws and regulations such as the GDPR in the EU and the CCPA in the U.S. imposing new and relatively burdensome obligations, and with substantial uncertainty over the interpretation and application of these and other laws and regulations, we may face challenges in addressing their requirements and making necessary changes to our policies and practices, and we may incur significant costs and expenses in an effort to do so. Any failure, real or perceived, by us to comply with our posted privacy policies, changing consumer expectations, or with any evolving regulatory requirements, interpretations, or orders, other local, state, federal, or international privacy, data protection, information security, or consumer protection-related laws and regulations, industry standards, or contractual obligations could cause our customers to reduce their use of our products and services, disrupt our supply chain or third party vendor or developer partnerships, and materially and adversely affect our business.

Further, from time to time, we may leverage third parties to help conduct our businesses in the U.S. or abroad. We and our third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities and may be held liable for any corrupt or other illegal activities of these third-party business partners and intermediaries, our employees, representatives, contractors, channel partners, and agents, even if we do not explicitly authorize such activities. While we have policies and procedures to address compliance with such laws, we cannot assure you that our employees and agents will not take actions in violation of our policies and applicable law, for which we may be ultimately held responsible.

We may not be able to respond quickly or effectively to regulatory, legislative, and other developments, and these changes may in turn impair our ability to offer our existing or planned features, products, and services and/or increase our cost of doing business. In addition, if our practices are not consistent or viewed as not consistent with legal and regulatory requirements, including changes in laws, regulations, consumer sentiment, and industry standards or new interpretations or applications of existing laws, regulations, and standards, we may become subject to audits, inquiries, whistleblower complaints, adverse media coverage, investigations, loss of export privileges, severe criminal or civil sanctions, or suspension or debarment from U.S. government contracts, all of which may have an adverse effect on our reputation, business, results of operations, and financial condition.

Our business is subject to complex and evolving regulations and oversight related to our provision of payments services and other financial services.

The local, state, federal, and international laws, regulations, licensing schemes, and industry standards that govern our business include or may in the future include those relating to banking, lending, deposit-taking, cross-border and domestic money transmission, foreign exchange, payments services (such as payment processing and settlement services), cryptocurrency, consumer protection, anti-money laundering, escheatment, international sanctions regimes, data privacy and security, and compliance with the Payment Card Industry Data Security Standard, a set of requirements designed to ensure that all companies that process, store, or transmit payment card information maintain a secure environment to protect cardholder data. These laws, rules, regulations, and standards are enforced by multiple authorities and governing bodies in the United States, including the Department of the Treasury, the Consumer Financial Protection Bureau, the Federal Deposit Insurance Corporation, the Securities and Exchange Commission, self-regulatory organizations, and numerous state and local agencies. Outside of the United States, we are subject to additional laws, rules, and regulations related to the provision of payments and financial services, including those enforced by the Ministry of Economy, Trade, and Industry in Japan, those enforced by the Australian Transaction Reports and Analysis Centre, and those enforced by the Financial Conduct Authority in the United Kingdom. As we expand into new jurisdictions, or expand our product offerings in existing jurisdictions, the number of foreign regulations and regulators governing our business will expand as well. If we pursue additional or alternative means of growing Square Capital, additional state and federal regulations would apply. Similarly, if we choose to offer Square Payroll in more jurisdictions, additional regulations, including tax rules, will apply. In addition, as our business and products continue to develop and expand, we may become subject to additional rules, regulations, and industry standards. We may not always be able to accurately predict the scope or applicability of certain regulations to our business, particularly as we expand into new areas of operations, which could have a significant negative effect on our existing business and our ability to pursue future plans.

We have introduced a feature to the Cash App that permits our customers to buy and sell bitcoin. Bitcoin is not considered legal tender or backed by any government, and it has experienced price volatility, technological glitches, security compromises, and various law enforcement and regulatory interventions. We do not believe that the bitcoin platform involves offering securities that are subject to the registration or other provisions of federal or state securities laws. We also do not believe our Bitcoin-related transactions subject us to regulation under the federal securities laws, including as a broker-dealer or an investment adviser, or registration under the federal commodities laws. However, the regulation of cryptocurrency and crypto platforms is still an evolving area, and it is possible that a court or a federal or state regulator could disagree with one or more of these conclusions. If we fail to comply with regulations or prohibitions applicable to us, we could face regulatory or other enforcement actions and potential fines and other consequences. Further, we might not be able to continue operating the feature, at least in current form, and to the extent that the feature is viewed by the market as a valuable asset to Square, the price of our Class A common stock could decrease.

Although we have a compliance program focused on the laws, rules, and regulations applicable to our business and we are continually investing more in this program, we may still be subject to fines or other penalties in one or more jurisdictions levied by federal, state, or local regulators, including state Attorneys General and private plaintiffs who may be acting as private attorneys general pursuant to various applicable federal, state, and local laws, as well as those levied by foreign regulators. In addition to fines, penalties for failing to comply with applicable rules and regulations could include significant criminal and civil lawsuits, forfeiture of significant assets, increased licensure requirements, or other enforcement actions. We could also be required to make changes to our business practices or compliance programs as a result of regulatory scrutiny. In addition, any perceived or actual breach of compliance by us with respect to applicable laws, rules, and regulations could have a significant impact on our reputation as a trusted brand and could cause us to lose existing customers, prevent us from obtaining new customers, require us to expend significant funds to remedy problems caused by breaches and to avert further breaches, and expose us to legal risk and potential liability.

We have obtained licenses to operate as a money transmitter (or its equivalent) in the United States and in the states where this is required. As a licensed money transmitter, we are subject to obligations and restrictions with respect to the investment of customer funds, reporting requirements, bonding requirements, and inspection by state regulatory agencies concerning those aspects of our business considered money transmission. Evaluation of our compliance efforts, as well as the questions of whether and to what extent our products and services are considered money transmission, are matters of regulatory interpretation and could change over time. In the past, we have been subject to fines and other penalties by regulatory authorities due to their interpretations and applications to our business of their respective state money transmission laws. In the future, as a result of the regulations applicable to our business, we could be subject to investigations and resulting liability, including governmental fines, restrictions on our business, or other sanctions, and we could be forced to cease conducting certain aspects of our business with residents of certain jurisdictions, be forced to otherwise change our business practices in certain jurisdictions, or be required to obtain additional licenses or regulatory approvals. There can be no assurance that we will be able to obtain any such licenses, and, even if we were able to do so, there could be substantial costs and potential product changes involved in maintaining such licenses, which could have a material and adverse effect on our business.

Our subsidiary Cash App Investing LLC ("Cash App Investing") is a broker-dealer registered with the SEC and a member of FINRA, and therefore is subject to extensive regulation and scrutiny.

Our subsidiary Cash App Investing facilitates transactions in shares and fractionalized shares of publicly-traded stock by users of our Cash App through a third-party broker that executes those transactions, DriveWealth LLC ("DriveWealth"). Cash App Investing engages in regulated activities that are different from those previously undertaken by us. It is registered with the SEC as a broker-dealer under the Exchange Act and is a member of FINRA. Therefore Cash App Investing is subject to regulation, examination and supervision by the SEC and FINRA. The regulations applicable to broker-dealers cover all aspects of the securities business, including sales practices, use and safekeeping of clients' funds and securities, capital adequacy, record-keeping, and the conduct and qualification of officers, employees, and independent contractors. As part of the regulatory process, broker-dealers are subject to periodic examinations by their regulators, the purpose of which is to determine compliance with securities laws and regulations, and from time to time may be subject to additional routine and for-cause examinations. It is not uncommon for regulators to assert, upon completion of an examination, that the broker-dealer being examined has violated certain of these rules and regulations. Depending on the nature and extent of the violations, the broker-dealer may be required to pay a fine and/or be subject to other forms of disciplinary action. Additionally, the adverse publicity arising from the imposition of sanctions could harm our reputation and cause us to lose existing customers or fail to gain new customers.

The SEC and FINRA have the authority to bring administrative proceedings against broker-dealers, whether arising out of examinations or otherwise, for violations of the securities laws. Administrative sanctions can include cease-and-desist orders, censure, fine, civil monetary penalties, and disgorgement and may even result in the suspension or expulsion of the firm from the securities industry. Similar sanctions may be imposed upon officers, directors, representatives, and employees. In addition, judicial proceedings may be initiated by the SEC or state regulators if the misconduct warrants such action and may result in injunctive relief, civil monetary penalties, disgorgement, and other sanctions.

Cash App Investing has adopted, and regularly reviews and updates, various policies, controls, and procedures designed for compliance with Cash App Investing's obligations. However, appropriately addressing these issues is complex and difficult and our reputation could be damaged if we fail, or appear to fail, to appropriately address them. Failure to adhere to these policies and procedures may also result in regulatory sanctions or litigation against us.

In the event of any regulatory action or scrutiny, we or Cash App Investing could also be required to make changes to our business practices or compliance programs. In addition, any perceived or actual breach of compliance by Cash App Investing with respect to applicable laws, rules, and regulations could have a significant impact on our reputation as a trusted brand and could cause us to lose existing customers, prevent us from obtaining new customers, require us to expend significant funds to remedy problems caused by breaches and to avert further breaches, and expose us to legal risk and potential liability.

Cash App Investing is subject to net capital and other regulatory capital requirements; failure to comply with these rules could harm our business.

Our subsidiary Cash App Investing is subject to the net capital requirements of the SEC and FINRA. These requirements typically specify the minimum level of net capital a broker-dealer must maintain and also mandate that a significant part of its assets be kept in relatively liquid form. Failure to maintain the required net capital may subject a firm to limitation of its activities, including suspension or revocation of its registration by the SEC and suspension or expulsion by FINRA, and ultimately may require its liquidation. Currently, Cash App Investing has fairly low net capital requirements, because it does not hold customer funds or securities, but instead transmits and delivers those funds on behalf of customers to DriveWealth or back to the applicable customer. However, a change in the net capital rules, a change in how Cash App Investing handles or holds customer assets, or the imposition of new rules affecting the scope, coverage, calculation, or amount of net capital requirements could have adverse effects. Finally, because Cash App Investing is subject to such net capital requirements, we may be required to inject additional capital into Cash App Investing and as such we may have liability and/or our larger business may be affected by any of these outcomes.

It is possible that FINRA will require changes to our business practices based on our ownership of Cash App Investing.

In certain cases, FINRA has required unregistered affiliates of broker-dealers to comply with additional regulatory requirements, including, among others, handling all securities or other financial transactions through the broker-dealer or conforming all marketing and advertising materials to the requirements applicable to broker-dealers. We do not currently believe that these types of requirements apply to any aspect of our business other than the securities transactions facilitated through the Cash App. It is possible that, in the future, FINRA could require us to comply with additional regulations in the conduct of other activities (i.e., beyond the securities transactions made through the Cash App). If that were to occur, it could require significant changes to our business practices. These and other changes would impose significantly greater costs on us and disrupt existing practices in ways that could negatively affect our overarching business and profitability.

We are subject to risks related to litigation, including intellectual property claims, government investigations or inquiries, and regulatory matters or disputes.

We may be, and have been, subject to claims, lawsuits (including class actions and individual lawsuits), government or regulatory investigations, subpoenas, inquiries or audits, and other proceedings involving intellectual property, consumer protection, privacy, data protection, labor and employment, immigration, import and export practices, product labeling, competition, accessibility, securities, tax, marketing and communications practices, commercial disputes, anti-money laundering, anti-corruption, counter-terrorist financing, sanctions, and other matters.

The number and significance of our legal disputes and inquiries have increased as we have grown larger, as our business has expanded in scope and geographic reach, and as our products and services have increased in complexity, and we expect that we will continue to face additional legal disputes as we continue to grow and expand.

We receive significant media attention, which could result in increased litigation or other legal or regulatory proceedings. In addition, some of the laws and regulations affecting the internet, mobile commerce, payment processing, business financing, and employment did not anticipate businesses like ours, and many of the laws and regulations, including those affecting us have been enacted relatively recently. As a result, there is substantial uncertainty regarding the scope and application of many of the laws and regulations to which we are subject, which increases the risk that we will be subject to claims alleging violations of those laws and regulations. Evolving case law over worker classification, including a California Supreme Court decision, increases litigation in this area and may have ramifications as to how we operate certain segments of our business and our engagement with independent contractors. For example, a determination in, or settlement of, any legal proceeding involving us or others that determines that workers of the type we maintain are independent contractors instead are employees could harm our business, financial condition, and results of operations, including, but not necessarily limited to, as a result of monetary exposure arising from or relating to penalties, defense costs, taxes, wages, and other matters and potential costs of such workers unionizing or attempting to unionize.

The scope, outcome, and impact of claims, lawsuits, government or regulatory investigations, subpoenas, inquiries or audits, and other proceedings to which we are subject cannot be predicted with certainty. Regardless of the outcome, such investigations and legal proceedings can have a material and adverse impact on us due to their costs, diversion of our resources, and other factors. Plaintiffs may seek, and we may become subject to, preliminary or provisional rulings in the course of litigation, including preliminary injunctions requiring us to cease some or all of our operations. We may decide to settle legal disputes on terms that are unfavorable to us. We may also be accused of having, or be found to have, infringed or violated third-party intellectual property rights. Furthermore, if any litigation to which we are a party is resolved adversely, we may be subject to an unfavorable judgment that we may not choose to appeal or that may not be reversed upon appeal. We may have to seek a license to continue practices found to be in violation of a third party's rights, or we may have to change or cease certain practices. If we are required, or choose to enter into, royalty or licensing arrangements, such arrangements may not be available on reasonable terms or at all and may significantly increase our operating costs and expenses. As a result, we may also be required to develop or procure alternative non-infringing technology or discontinue use of technology, and doing so could require significant effort and expense or may not be feasible. In addition, the terms of any settlement or judgment in connection with any legal claims, lawsuits, or proceedings may require us to cease some or all of our operations or to pay substantial amounts to the other party and could materially and adversely affect our business.

Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our products, services, and brand.

Our trade secrets, trademarks, copyrights, patents, and other intellectual property rights are critical to our success. We rely on, and expect to continue to rely on, a combination of confidentiality, invention assignment, and license agreements with our employees, consultants, and third parties with whom we have relationships, as well as trademark, trade dress, domain name, copyright, trade secret, and patent rights, to protect our brand and other intellectual property rights. However, various events outside of our control may pose a threat to our intellectual property rights, as well as to our products and services. Effective protection of trademarks, copyrights, domain names, patent rights, and other intellectual property rights is expensive and difficult to maintain, both in terms of application and maintenance costs, as well as the costs of defending and enforcing those rights. The efforts we have taken to protect our intellectual property rights may not be sufficient or effective. Our intellectual property rights may be infringed, misappropriated, or challenged, which could result in them being narrowed in scope or declared invalid or unenforceable. Similarly, our reliance on unpatented proprietary information and technology, such as trade secrets and confidential information, depends in part on agreements we have in place with employees and third parties that place restrictions on the use and disclosure of this intellectual property. These agreements may be insufficient or may be breached, or we may not enter into sufficient agreements with such individuals in the first instance, in either case potentially resulting in the unauthorized use or disclosure of our trade secrets and other intellectual property, including to our competitors, which could cause us to lose any competitive advantage resulting from this intellectual property. Individuals not subject to invention assignment agreements may make adverse ownership claims to our current and future intellectual property. There can be no assurance that our intellectual property rights will be sufficient to protect against others offering products or services that are substantially similar to ours and that compete with our business.

As of September 30, 2019, we had 650 issued patents in force in the United States and abroad and 629 filed patent applications pending in the United States and abroad, though there can be no assurance that any or all of these pending applications will ultimately be issued as patents. We also pursue registration of copyrights, trademarks, and domain names in the United States and in certain jurisdictions outside of the United States, but doing so may not always be successful or cost-effective. In general, we may be unable or, in some instances, choose not to obtain legal protection for our intellectual property, and our existing and future intellectual property rights may not provide us with competitive advantages or distinguish our products and services from those of our competitors. The laws of some foreign countries do not protect our intellectual property rights to the same extent as the laws of the United States, and effective intellectual property protection and mechanisms may not be available in those jurisdictions. We may need to expend additional resources to defend our intellectual property in these countries, and the inability to do so could impair our business or adversely affect our international expansion. Our intellectual property rights may be contested, circumvented, or found unenforceable or invalid, and we may not be able to prevent third parties from infringing, diluting, or otherwise violating them.

Additionally, our intellectual property rights and other confidential business information are subject to risks of compromise or unauthorized disclosure if our security measures are unable to prevent cyber-attacks. Our security measures, including those of our third-party service providers, may not detect or prevent all attempted security breaches or other attacks that may jeopardize the security of information stored in or transmitted by our systems or those of our third-party service providers. Such attacks could lead to the loss of critical data or the unauthorized disclosure or use of our proprietary information and other confidential information. Any such attacks, or the perception that such attacks have occurred, could negatively impact our ability to protect our intellectual property rights, our reputation, or customer trust in us and our products.

Significant impairments of our intellectual property rights, and limitations on our ability to assert our intellectual property rights against others, could have a material and adverse effect on our business.

We may not be able to secure financing on favorable terms, or at all, to meet our future capital needs, and our existing credit facility contains, and any future debt financing may contain, covenants that impact the operation of our business and pursuit of business opportunities.

We have funded our operations since inception primarily through debt and equity financings, bank credit facilities, and finance lease arrangements. While we believe that our existing cash and cash equivalents, marketable debt securities, and availability under our line of credit are sufficient to meet our working capital needs and planned capital expenditures, and service our debt, there is no guarantee that this will continue to be true in the future. In the future, we may require additional capital to respond to business opportunities, refinancing needs, business and financial challenges, regulatory surety bond requirements, acquisitions, or unforeseen circumstances and may decide to engage in equity, equity-linked, or debt financings or enter into additional credit facilities for other reasons, and we may not be able to secure any such additional financing or refinancing on favorable terms, in a timely manner, or at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to grow or support our business and to respond to business challenges could be significantly limited.

Our credit facility contains affirmative and negative covenants, including customary limitations on the incurrence of certain indebtedness and liens, restrictions on certain inter-company transactions, and limitations on dividends and stock repurchases. Any debt financing obtained by us in the future could also involve restrictive covenants relating to our capital-raising activities and other financial and operational matters, which may make it more difficult for us to operate our business, obtain additional capital, and pursue business opportunities, including potential acquisitions. Our ability to comply with these covenants may be affected by events beyond our control, and breaches of these covenants could result in a default under our existing credit facility and any future financing agreements into which we may enter. If not waived, these defaults could cause indebtedness outstanding under our credit facility, our other outstanding indebtedness, including our 2022 Notes and 2023 Notes (collectively, the Notes) and any future financing agreements that we may enter into to become immediately due and payable.

If we raise additional funds through further issuances of equity or other securities convertible into equity, including convertible debt securities, our existing stockholders could suffer dilution in their percentage ownership of our company, and any such securities we issue could have rights, preferences, and privileges senior to those of holders of our Class A common stock.

Servicing our Notes may require a significant amount of cash, and we may not have sufficient cash or the ability to raise the funds necessary to settle conversions of the Notes in cash, repay the Notes at maturity, or repurchase the Notes as required following a fundamental change.

On March 6, 2017, we issued $440.0 million aggregate principal amount of 2022 Notes, and on May 25, 2018, we issued $862.5 million aggregate principal amount of 2023 Notes.

Prior to December 1, 2021, in the case of the 2022 Notes, and prior to February 15, 2023, in the case of the 2023 Notes, the applicable Notes are convertible at the option of the holders only under certain conditions or upon occurrence of certain events. Because the last reported sale price of our Class A common stock exceeded 130% of the conversion price for the 2022 Notes for the relevant period in the calendar quarter ending September 30, 2019, the 2022 Notes are convertible at the option of the holders thereof during the calendar quarter ending December 31, 2019. Whether the Notes of either series will be convertible following such calendar quarter will depend on the satisfaction of this condition or another conversion condition in the future. If holders of the Notes elect to convert their Notes, unless we elect to deliver solely shares of our Class A common stock to settle such conversion, we will be required to make cash payments in respect of the Notes being converted. Effective October 2018, we revised our prior stated policy of settling conversions through combination settlement with a specified dollar amount of $1,000 per $1,000 principal amount of Notes. We currently expect to settle future conversions solely in shares of our Class A common stock, which has the effect of including the shares of Class A common stock issuable upon conversion of the Notes in our diluted earnings per share to the extent such shares are not anti-dilutive. We will reevaluate this policy from time to time as conversion notices are received from holders of the Notes. Holders of the Notes also have the right to require us to repurchase all or a portion of their Notes upon the occurrence of a fundamental change (as defined in the applicable indenture governing the Notes) at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest. If the Notes have not previously been converted or repurchased, we will be required to repay the Notes in cash at maturity.

Our ability to make required cash payments in connection with conversions of the Notes, repurchase the Notes in the event of a fundamental change, or to repay or refinance the Notes at maturity will depend on market conditions and our future performance, which is subject to economic, financial, competitive, and other factors beyond our control. We also may not use the cash proceeds we raised through the issuance of the Notes in an optimally productive and profitable manner. Since inception, our business has generated net losses, and we may continue to incur significant losses. As a result, we may not have enough available cash or be able to obtain financing at the time we are required to repurchase or repay the Notes or pay cash with respect to Notes being converted.

In addition, our ability to repurchase or to pay cash upon conversion or at maturity of the Notes may be limited by law or regulatory authority. Our failure to repurchase Notes following a fundamental change or to pay cash upon conversion (unless we elect to deliver solely shares of our Class A common stock to settle such conversion) or at maturity of the Notes as required by the applicable indenture would constitute a default under such indenture. A default under the applicable indenture or the fundamental change itself could also lead to a default under our credit facility, our other outstanding indebtedness, or agreements governing our future indebtedness and could have a material adverse effect on our business, results of operations, and financial condition. If the payment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Notes or to pay cash upon conversion or at maturity of the Notes.

We are subject to counterparty risk with respect to the convertible note hedge transactions.

In connection with the issuance of the 2022 Notes and the 2023 Notes, we entered into convertible note hedge transactions with certain financial institutions, which we refer to as the "option counterparties." The option counterparties are financial institutions or affiliates of financial institutions, and we will be subject to the risk that one or more of such option counterparties may default under the convertible note hedge transactions. Our exposure to the credit risk of the option counterparties will not be secured by any collateral. If any option counterparty becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at that time under the convertible note hedge transaction. Our exposure will depend on many factors but, generally, the increase in our exposure will be correlated to the increase in our Class A common stock market price and in the volatility of the market price of our Class A common stock. In addition, upon a default by any option counterparty, we may suffer adverse tax consequences and dilution with respect to our Class A common stock. We can provide no assurance as to the financial stability or viability of any option counterparty.

Our reported financial statements and results may be materially and adversely affected by changes in accounting principles generally accepted in the United States.

Generally accepted accounting principles in the United States are subject to interpretation by the Financial Accounting Standards Board (FASB), the SEC, and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial statements and results and could materially and adversely affect the transactions completed before the announcement of a change. Additionally, the adoption of new or revised accounting principles may require that we make significant changes to our systems, processes, and controls.

For example, in February 2016, the FASB issued a new accounting standard for leasing. We adopted this new guidance on January 1, 2019, and elected the optional transition method to apply the transition provisions from the effective date of adoption. We recognized $112.0 million of operating right-of-use lease assets and $135.6 million of operating lease liabilities on our consolidated balance sheet. Additionally, we derecognized $149 million related to the build-to-suit asset and liability upon adoption of this standard because we are no longer deemed to be the owner of the related asset under construction under the new standard. Changes resulting from this and other new standards may result in materially different financial statements and results and may require that we change how we process, analyze, and report financial information and that we change financial reporting controls.

If currency exchange rates fluctuate substantially in the future, our financial results, which are reported in U.S. dollars, could be adversely affected.

As we continue to expand our global operations, we become more exposed to the effects of fluctuations in currency exchange rates. Our contracts are denominated primarily in U.S. dollars, and therefore the majority of our revenue is not subject to foreign currency risk. However, fluctuations in exchange rates of the U.S. dollar against foreign currencies could adversely affect our business, results of operations, and financial condition. We incur expenses for employee compensation and other operating expenses at our non-U.S. locations in the local currency. Fluctuations in the exchange rates between the U.S. dollar and other currencies could result in the dollar equivalent of such expenses being higher. This could have a negative impact on our reported results of operations. From time to time, we may enter into forward contracts, options, and/or foreign exchange swaps related to specific transaction exposures that arise in the normal course of our business, though we are not currently a party to any such hedging transactions. These and other such hedging activities may not eliminate our exposure to foreign exchange fluctuations. Moreover, the use of hedging instruments may introduce additional risks if we are unable to structure effective hedges with such instruments.

Federal income tax reform could have unforeseen effects on our financial condition and results of operations.

Legislation commonly referred to as the Tax Cuts and Jobs Act of 2017 ("2017 Tax Act") was enacted in December 2017 and contains many significant changes to U.S. federal tax laws. The 2017 Tax Act requires complex computations that were not previously provided for under U.S. tax law. The Company has provided for the effects of the 2017 Tax Act based on guidance in effect as of December 31, 2018. The 2017 Tax Act requires significant judgments to be made in interpretation of the law and significant estimates in the calculation of the provision for income taxes. Additional guidance may be issued by the IRS, Department of the Treasury, or other governing bodies that may significantly differ from the Company's interpretation of the law, which could have unforeseen effects on our financial condition and results of operations.

Risks Related to Ownership of Our Common Stock

The dual class structure of our common stock has the effect of concentrating voting control within our stockholders who held our stock prior to our initial public offering, including many of our employees and directors and their affiliates; this will limit or preclude your ability to influence corporate matters.

Our Class B common stock has ten votes per share, and our Class A common stock has one vote per share. Stockholders who hold shares of Class B common stock, including many of our executive officers, employees, and directors and their affiliates, held approximately 70.4% of the voting power of our combined outstanding capital stock as of September 30, 2019. Our executive officers and directors and their affiliates held approximately 73.2% of the voting power of our combined outstanding capital stock as of September 30, 2019. Because of the ten-to-one voting ratio between our Class B and Class A common stock, the holders of our Class B common stock collectively hold more than a majority of the combined voting power of our common stock, and therefore such holders are able to control all matters submitted to our stockholders for approval. When the shares of our Class B common stock represent less than 5% of the combined voting power of our Class A common stock and Class B common stock, the then-outstanding shares of Class B common stock will automatically convert into shares of Class A common stock.

Transfers by holders of Class B common stock will generally result in those shares converting to Class A common stock, subject to limited exceptions, such as certain transfers to entities, including certain charities and foundations, to the extent the transferor retains sole dispositive power and exclusive voting control with respect to the shares of Class B common stock. Such conversions of Class B common stock to Class A common stock upon transfer will have the effect, over time, of increasing the relative voting power of those holders of Class B common stock who retain their shares in the long term. If, for example, our Class B stockholders retain shares of Class B common stock constituting as little as 10% of all outstanding shares of our Class A and Class B common stock combined, they will continue to control a majority of the combined voting power of our outstanding capital stock.

We will continue to incur significant costs and devote substantial management time as a result of operating as a public company.

As a public company, we incur significant legal, financial, and other expenses that private companies do not. We are subject to the reporting requirements of the Exchange Act and are required to comply with the applicable requirements of the Sarbanes-Oxley Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act, as well as the rules and regulations subsequently implemented by the SEC and the listing standards of the New York Stock Exchange (NYSE), including changes in corporate governance practices and the establishment and maintenance of effective disclosure and financial controls. Continuing to comply with these requirements may increase our legal and financial compliance costs and may make some activities more time consuming and costly. In addition, our management and other personnel must divert attention from operational and other business matters to devote substantial time to these requirements. If we are unable to continue to meet these requirements, we may not be able to remain listed on the NYSE, which could result in potential loss of confidence by our customers and employees, loss of institutional investor interest, fewer business development opportunities, class action or shareholder derivative lawsuits, depressed stock price, limited liquidity of our Class A common stock, and other material adverse consequences. Moreover, we could incur additional compensation costs in the event that we decide to pay cash compensation closer to that of other public technology companies, which would increase our general and administrative expenses and could materially and adversely affect our profitability.

If we are unable to maintain effective disclosure controls and internal controls over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports, and the market price of our Class A common stock may be materially and adversely affected.

We are continuing to develop and refine our disclosure controls and improve our internal controls over financial reporting. We have expended, and anticipate that we will continue to expend, significant resources in order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting.

Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business. Further, to the extent we acquire other businesses, the acquired company may not have a sufficiently robust system of internal controls and we may discover deficiencies. If we identify material weaknesses in our disclosure controls or internal control over financial reporting in the future, we will be unable to assert that our internal controls are effective. If we are unable to do so, or if our auditors are unable to attest to management's report on the effectiveness of our internal controls, we could lose investor confidence in the accuracy and completeness of our financial reports, which could cause the price of our Class A common stock to decline. We have identified significant deficiencies in our internal control over financial reporting in the past and have taken steps to remediate such deficiencies. However, our efforts to remediate them may not be effective or prevent any future deficiency in our internal controls. We are required to disclose material changes made in our internal controls and procedures on a quarterly basis.

Any failure to maintain effective disclosure controls and internal control over financial reporting could have a material and adverse effect on our business and operating results and cause a decline in the market price of our Class A common stock.

The market price of our Class A common stock has been and will likely continue to be volatile, and you could lose all or part of your investment.

The market price of our Class A common stock has been and may continue to be subject to wide fluctuations in response to various factors, some of which are beyond our control and may not be related to our operating performance. In addition to the factors discussed in this "Risk Factors" section and elsewhere in this Quarterly Report on Form 10-Q, factors that could cause fluctuations in the market price of our Class A common stock include the following:

- price and volume fluctuations in the overall stock market from time to time;
- volatility in the market prices and trading volumes of companies in our industry or companies that investors consider comparable;
- changes in operating performance and stock market valuations of other companies generally or of those in our industry in particular;
- sales of shares of our common stock by us or our stockholders;
- issuance of shares of our Class A common stock, whether in connection with an acquisition or upon conversion of some or all of our outstanding Notes;

- failure of securities analysts to maintain coverage and/or to provide accurate consensus results of us, changes in financial estimates by securities analysts who follow us, or our failure to meet these estimates or the expectations of investors;
- the financial or other projections we may provide to the public, any changes in those projections, or our failure to meet those projections;
- announcements by us or our competitors of new products or services;
- public reaction to our press releases, other public announcements, and filings with the SEC;
- rumors and market speculation involving us or other companies in our industry;
- actual or anticipated changes in our results of operations;
- changes in the regulatory environment or the regulations applicable to our current or futures lines of business;
- actual or anticipated developments in our business, our competitors' businesses, or the competitive landscape generally;
- litigation involving us, our industry, or both, or investigations by regulators into our operations or those of our competitors;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidelines, interpretations, or principles;
- actual or perceived data security incidents that we or our service providers may suffer;
- any significant change in our management; and
- general economic conditions and slow or negative growth of our markets.

In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

The convertible note hedge and warrant transactions may affect the value of our Class A common stock.

In connection with the issuance of the 2022 Notes and the 2023 Notes, we entered into convertible note hedge transactions with the option counterparties. We also entered into warrant transactions with the option counterparties pursuant to which we sold warrants for the purchase of our Class A common stock. The convertible note hedge transactions are expected generally to reduce the potential dilution to our Class A common stock upon any conversion of the Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted Notes, as the case may be. The warrant transactions would separately have a dilutive effect to the extent that the market price per share of our Class A common stock exceeds the strike price of any warrants unless, subject to the terms of the warrant transactions, we elect to cash settle the warrants.

From time to time, the option counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivative transactions with respect to our Class A common stock and/or purchasing or selling our Class A common stock or other securities of ours in secondary market transactions prior to the maturity of the Notes. This activity could cause or avoid an increase or a decrease in the market price of our Class A common stock.

Anti-takeover provisions contained in our amended and restated certificate of incorporation, our amended and restated bylaws, and provisions of Delaware law could impair a takeover attempt.

Our amended and restated certificate of incorporation, our amended and restated bylaws, and Delaware law contain provisions that could have the effect of rendering more difficult, delaying, or preventing an acquisition deemed undesirable by our board of directors and therefore depress the trading price of our Class A common stock.

Among other things, our dual-class common stock structure provides our holders of Class B common stock with the ability to significantly influence the outcome of matters requiring stockholder approval, even if they own significantly less than a majority of the shares of our outstanding shares of common stock. Further, our amended and restated certificate of incorporation and amended and restated bylaws include provisions (i) creating a classified board of directors whose members serve staggered three-year terms; (ii) authorizing "blank check" preferred stock, which could be issued by our board of directors without stockholder approval and may contain voting, liquidation, dividend, and other rights superior to our common stock; (iii) limiting the ability of our stockholders to call special meetings; (iv) eliminating the ability of our stockholders to act by written consent without a meeting or to remove directors without cause; and (v) requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors. These provisions, alone or together, could delay or prevent hostile takeovers and changes in control or changes in our management.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which prevents certain stockholders holding more than 15% of our outstanding capital stock from engaging in certain business combinations without the approval of our board of directors or the holders of at least two-thirds of our outstanding capital stock not held by such stockholder.

Any provision of our amended and restated certificate of incorporation, amended and restated bylaws, or Delaware law that has the effect of delaying or preventing a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our capital stock and could also affect the price that some investors are willing to pay for our Class A common stock.

Our amended and restated bylaws provide that the Court of Chancery of the State of Delaware will be the sole and exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or employees.

Our amended and restated bylaws provide that, unless we consent to the selection of an alternative forum, the Court of Chancery of the State of Delaware is the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf; (ii) any action asserting a claim of breach of fiduciary duty owed by any of our directors, officers, or other employees to us or to our stockholders; (iii) any action asserting a claim arising pursuant to the Delaware General Corporation Law; or (iv) any action asserting a claim governed by the internal affairs doctrine. The choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, or other employees, which may discourage such lawsuits against us and our directors, officers, and other employees. Alternatively, if a court were to find the choice of forum provision contained in our amended and restated bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could have a material and adverse impact on our business.

If securities or industry analysts publish reports that are interpreted negatively by the investment community, publish negative research reports about our business, cease coverage of our company, or fail to regularly publish reports on us, our share price and trading volume could decline.

The trading market for our Class A common stock depends, to some extent, on the research and reports that securities or industry analysts publish about us, our business, our market, or our competitors. We do not have any control over these analysts or the information contained in their reports. If one or more analysts publish research reports that are interpreted negatively by the investment community, or have a negative tone regarding our business, financial, or operating performance, industry, or end-markets, our share price could decline. In addition, if a majority of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

We do not intend to pay dividends for the foreseeable future.

We currently intend to retain any future earnings to finance the operation and expansion of our business, and we do not expect to declare or pay any dividends in the foreseeable future. As a result, you may only receive a return on your investment in our common stock if the trading price of our common stock increases. Investors seeking cash dividends should not purchase shares of our common stock. Our ability to pay dividends is restricted by the terms of our revolving credit facility and is also subject to limitations imposed by certain financial regulations.

Additional stock issuances could result in significant dilution to our stockholders.

We may issue additional equity securities to raise capital, make acquisitions, or for a variety of other purposes. Additional issuances of our stock may be made pursuant to the exercise or conversion of new or existing convertible debt securities, warrants, stock options, or other equity incentive awards. Any such issuances will result in dilution to existing holders of our stock. We rely on equity-based compensation as an important tool in recruiting and retaining employees. The amount of dilution due to equity-based compensation of our employees and other additional issuances could be substantial.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities by the Company and Affiliated Purchasers

Period	Total number of Shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs
July 1 to July 31	18,806 (i)	$ 73.20	—	—
August 1 to August 31	—	—	—	—
September 1 to September 30	—	—	—	—
Total	18,806	$ 73.20	—	—

(i) Represents shares that have been withheld by the Company to satisfy its tax withholding and remittance obligations in connection with the vesting of restricted stock awards.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

The documents listed in the Exhibit Index of this Quarterly Report on Form 10-Q are incorporated by reference or are filed with this Quarterly Report on Form 10-Q (numbered in accordance with Item 601 of Regulation S-K).

EXHIBIT INDEX

Exhibit Number	Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
32.1†	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, formatted in Inline XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive Income (Loss), (iv) Condensed Consolidated Statements of Cash Flows, (v) Condensed Consolidated Statements of Stockholders' Equity, and (vi) Notes to Condensed Consolidated Financial Statements.				
104	Cover Page Interactive Data File, formatted in Inline XBRL (included in Exhibit 101)				

† The certifications attached as Exhibit 32.1 that accompany this Quarterly Report on Form 10-Q are deemed furnished and not filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Square, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SQUARE, INC.

Date:	November 6, 2019	By:	/s/ Jack Dorsey
			Jack Dorsey
			President, Chief Executive Officer, and Chairman
			(Principal Executive Officer)
		By:	/s/ Amrita Ahuja
			Amrita Ahuja
			Chief Financial Officer
			(Principal Financial Officer)

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
SECURITIES EXCHANGE ACT OF 1934 RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jack Dorsey, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Square, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2019

By: /s/ Jack Dorsey
Jack Dorsey
President, Chief Executive Officer, and Chairman

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
SECURITIES EXCHANGE ACT OF 1934 RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Amrita Ahuja, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Square, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2019

By: /s/ Amrita Ahuja
Amrita Ahuja
Chief Financial Officer

Exhibit 32.1

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jack Dorsey, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Square, Inc. for the fiscal quarter ended September 30, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Square, Inc.

Date: November 6, 2019

By: /s/ Jack Dorsey
Jack Dorsey
President, Chief Executive Officer, and Chairman

I, Amrita Ahuja, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Square, Inc. for the fiscal quarter ended September 30, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Square, Inc.

Date: November 6, 2019

By: /s/ Amrita Ahuja
Amrita Ahuja
Chief Financial Officer