

ADVANCED MICRO DEVICES INC
Form 8-K
January 31, 2017

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

FORM 8-K
CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934
January 31, 2017
Date of Report (Date of earliest event reported)

ADVANCED MICRO DEVICES, INC.
(Exact name of registrant as specified in its charter)

Delaware 001-07882 94-1692300
(State of (Commission (IRS Employer
Incorporation) File Number) Identification Number)

One AMD Place
P.O. Box 3453
Sunnyvale, California 94085
(Address of principal executive offices) (Zip Code)
(408) 749-4000
(Registrant's telephone number, including area code)
N/A
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition.

Item 7.01 Regulation FD Disclosure.

The information in this report furnished pursuant to Items 2.02 and 7.01, including Exhibits 99.1 and 99.2 attached hereto, shall not be deemed “filed” for the purposes of Section 18 of the Securities and Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of that section. It may only be incorporated by reference in another filing under the Exchange Act or the Securities Act of 1933, as amended, if such subsequent filing specifically references the information furnished pursuant to Items 2.02 and 7.01 of this report.

On January 31, 2017, Advanced Micro Devices, Inc. (the “Company”) announced its financial position and results of operations as of and for its fiscal quarter and fiscal year ended December 31, 2016 in a press release that is attached hereto as Exhibit 99.1. Attached hereto as Exhibit 99.2 is financial information and commentary by Devinder Kumar, Senior Vice President, Chief Financial Officer and Treasurer of the Company, regarding the Company’s fiscal quarter and fiscal year ended December 31, 2016.

To supplement the Company’s financial results presented on a U.S. Generally Accepted Accounting Principles (“GAAP”) basis, the Company’s earnings press release and CFO commentary contain non-GAAP financial measures, including non-GAAP gross margin, non-GAAP operating expenses, non-GAAP research and development and marketing, general and administrative expenses, non-GAAP operating income (loss), non-GAAP net income (loss), non-GAAP earnings (loss) per share, non-GAAP interest expense, taxes and other, Adjusted EBITDA and non-GAAP free cash flow. The Company believes that the supplemental non-GAAP financial measures assist investors in comparing the Company's core performance by excluding items that it believes are not indicative of the Company’s underlying operating performance. The Company cautions investors to carefully evaluate the financial results calculated in accordance with GAAP and the supplemental non-GAAP financial measures and reconciliations. The Company’s non-GAAP financial measures are not intended to be considered in isolation and are not a substitute for, or superior to, financial measures calculated in accordance with GAAP.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

EXHIBIT INDEX

Exhibit No. Description

99.1 Press release dated January 31, 2017

99.2 CFO Commentary on 2016 Fourth Quarter and Annual Results

SIGNATURE

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

Date: January 31, 2017 ADVANCED MICRO DEVICES, INC.

By: /s/ Devinder Kumar

Name: Devinder Kumar

Title: Chief Financial Officer, Senior Vice President & Treasurer

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Other
31,706

15,115

Total
\$
164,966

\$
86,454

(i) The deferred hardware costs represented costs associated with hardware sold through the retail distribution channels. The adoption of ASC 606 on January 1, 2018, has resulted in the recognition of such costs upon delivery of the hardware to the distribution channel.

(ii) The Company capitalizes the cost of its magstripe readers, including packaging and shipping costs, held on-hand by the Company as of each consolidated balance sheet date. Once the readers are shipped to a third-party distributor or an end-customer, they are recorded as marketing expense on the consolidated statements of operations.

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(iii) Prepaid compensation relates to cash transferred by the Company to an escrow agent in connection with a business combination that will be paid to officers of the acquiree and recognized as compensation expense over time as they provide services to the Company.

Accrued Expenses

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

	December 31, December 31,	
	2018	2017
Accrued facilities expenses	\$ 13,040	\$ 568
Accrued payroll	9,612	9,103
Accrued professional fees	5,232	5,638
Accrued advertising and other marketing	12,201	6,723
Processing costs payable	12,683	10,145
Accrued non income tax liabilities	9,503	6,155
Accrued hardware costs	5,125	2,496
Other accrued liabilities	14,958	11,452
Total	\$ 82,354	\$ 52,280

Other Current Liabilities

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

	December 31, December 31,	
	2018	2017
Accounts payable	\$ 36,416	\$ 16,763
Square Capital payable (iv)	6,092	7,671
Square Payroll payable (v)	7,534	2,850
Deferred revenue, current	31,474	5,893
Deferred rent, current	3,842	3,311
Accrued redemptions	1,305	1,036
Other	12,490	7,606
Total	\$ 99,153	\$ 45,130

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

(v) 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 11 - OTHER CONSOLIDATED BALANCE SHEET COMPONENTS (NON-CURRENT)

Other Non-Current Assets

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

	December 31, December 31,	
	2018	2017
Equity investment (i)	\$ 45,342	\$ 25,000
Prepaid compensation, non-current (ii)	5,915	—
Deposits	2,747	2,738
Other	4,389	3,612
Total	\$ 58,393	\$ 31,350

(i) In August, 2017, the Company invested \$25.0 million for preferred shares of Eventbrite, Inc. (Eventbrite) which was carried at cost. In September, 2018, upon Eventbrite's initial public offering, the preferred shares held by the Company converted into Class B common shares of Eventbrite. The Company revalued this investment and will subsequently carry it at fair value, with changes in fair value being recorded within other income or expense on the consolidated statement of operations. During the year ended December 31, 2018, the Company recorded a gain of \$20.3 million to other income on the consolidated statements of operations arising from revaluation of this investment.

(ii) Prepaid compensation relates to cash transferred by the Company to an escrow agent in connection with a business combination that will be paid to officers of the acquiree and recognized as compensation expense over time as they provide services to the Company.

Other Non-Current Liabilities

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

	December 31, December 31,	
	2018	2017
Statutory liabilities (iii)	\$ 54,748	\$ 40,768
Deferred rent, non-current	23,003	20,349
Deferred purchase consideration	3,900	—
Deferred revenue, non-current	4,977	432
Other	6,658	7,989
Total	\$ 93,286	\$ 69,538

(iii) 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.

NOTE 12 - 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 \$0.6 million in unused commitment fees for both the years ended December 31, 2018 and 2017. As of December 31, 2018, 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. Effective October 2018, the Company revised its prior stated policy of settling conversions through combination settlement with a specified dollar amount of \$1,000 per \$1,000 principal amount of 2023 Notes, and 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 2023 Notes.

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

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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 December 31, 2018. During the year ended December 31, 2018, certain holders of the 2022 Notes converted an aggregate principal amount of \$228.3 million of their 2022 Notes. The Company settled certain of the 2022 Notes through a combination of cash of \$219.4 million for the principal amount and the issuance of 6.9 million shares of the Company's Class A common stock. Effective October 2018, the Company revised its prior stated policy of settling conversions through combination settlement, and expects to settle future conversions in shares of the Company's Class A common stock. Subsequently, the Company settled \$8.9 million principal of the 2022 Notes entirely in shares of the Company's Class A common stock. The Company will reevaluate its settlement 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 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
December 31, 2018				
2023 Notes	\$ 862,500	\$(138,924)	\$(5,054)	\$ 718,522
2022 Notes	211,728	(27,569)	(2,986)	181,173
Total	1,074,228	(166,493)	(8,040)	899,695
December 31, 2017				
2022 Notes	\$ 440,000	\$(73,384)	\$(8,044)	\$ 358,572

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

	Amount allocated to conversion option	Less: allocated issuance costs	Equity component, net
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
December 31, 2017			
2022 Notes	\$ 86,203	\$(2,302)	\$ 83,901

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

	Year Ended December 31,	
	2018	2017
Contractual interest expense	\$4,023	\$1,351
Amortization of debt discount and issuance costs	32,855	14,223
Total	\$36,878	\$15,574

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

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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 consolidated balance sheets. During the year ended December 31, 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.

NOTE 13 - 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):

	Year Ended December 31,	
	2018	2017
Accrued transaction losses, beginning of the year	\$26,893	\$20,064
Provision for transaction losses	64,981	52,977
Charge-offs to accrued transaction losses	(58,192)	(46,148)
Accrued transaction losses, end of the year	\$33,682	\$26,893

NOTE 14 - INCOME TAXES

The domestic and foreign components of loss before income taxes are as follows (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Domestic	\$44,538	\$(10,900)	\$(145,499)
Foreign	(80,665)	(51,764)	(24,174)
Loss before income taxes	\$(36,127)	\$(62,664)	\$(169,673)

The components of the provision for income taxes are as follows (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Current:			
Federal	\$(4)	\$(1,192)	\$63
State	752	739	527
Foreign	2,224	1,987	1,269
Total current provision for income taxes	2,972	1,534	1,859
Deferred:			
Federal	(404)	(1,169)	173
State	35	57	18
Foreign	(277)	(273)	(133)
Total deferred provision for income taxes	(646)	(1,385)	58
Total provision for income taxes	\$2,326	\$149	\$1,917

The following is a reconciliation of the statutory federal income tax rate to the Company's effective tax rate:

	Balance at December 31,					
	2018	%	2017	%	2016	%
Tax at federal statutory rate	21.0	%	34.0	%	34.0	%
State taxes, net of federal benefit	(1.1)		(0.4)		(0.1)	
Foreign rate differential	(14.7)		(14.9)		(2.4)	
Non-deductible meals (i)	(3.4)		(0.3)		(0.1)	
Other non-deductible expenses	(1.7)		(0.7)		(0.8)	
Credits	164.8		41.5		8.5	
Other items	2.3		(1.2)		0.2	
Change in valuation allowance	(718.5)		(119.5)		(37.4)	
Impact of U.S. tax reform	—		(209.1)		—	
Share-based compensation (ii)	549.0		243.5		(2.4)	
Change in uncertain tax positions	(4.1)		(2.4)		(0.6)	
Termination of warrant	—		29.3		—	
Total	(6.4)	%	(0.2)	%	(1.1)	%

(i) This item was previously included in other non-deductible expenses in 2016 and 2017.

(ii) Starting in 2017, excess tax benefits from share-based award activity are reflected in the provision for income taxes.

The tax effects of temporary differences and related deferred tax assets and liabilities are as follows (in thousands):

	Balance at December 31,		
	2018	2017	2016
Deferred tax assets:			
Capitalized costs	\$30,131	\$35,608	\$61,897
Accrued expenses	31,494	23,553	29,421
Net operating loss carryforwards	485,562	244,197	65,507
Tax credit carryforwards	133,275	60,567	38,927
Property, equipment and intangible assets	—	7,390	5,721
Share-based compensation	38,265	35,728	52,091
Deferred Interest	8,290	—	—
Other	105	2,519	1,640
Total deferred tax assets	727,122	409,562	255,204
Valuation allowance	(719,040)	(409,043)	(254,898)
Total deferred tax assets, net of valuation allowance	8,082	519	306
Deferred tax liabilities:			
Property, equipment and intangible assets	(7,361)	—	—
Indefinite-lived intangibles	(275)	(644)	(476)
Total deferred tax liabilities	(7,636)	(644)	(476)
Net deferred tax assets (liabilities)	\$446	\$(125)	\$(170)

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act ("2017 Tax Act"). The 2017 Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 35% to 21%; (2) requiring companies to pay a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries; (3) in part eliminating U.S. federal income taxes on dividends from foreign subsidiaries; (4) requiring a current inclusion in U.S. federal taxable income of certain unrepatriated earnings of controlled foreign corporations; (5) eliminating the corporate alternative minimum tax ("AMT") and changing how existing AMT credits can be realized; (6) creating the base erosion anti-abuse tax ("BEAT"), a new minimum tax; (7) creating a new limitation on deductible interest expense; and (8) changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017.

In connection with the Company's analysis of the impact of the 2017 Tax Act, it recorded no tax benefit or expense for the year ended December 31, 2018 and recorded a benefit of \$1.3 million for the year ended December 31, 2017. The net benefit for 2017 consisted of the release of the valuation allowance on the Company's AMT credit carryforward, which will be refunded in tax years 2018-2021. In addition, the 2017 Tax Act reduces the corporate tax rate to 21%, effective January 1, 2018. Consequently, the Company recorded no change to its U.S. federal and state deferred tax assets for the year ended December 31, 2018 and recorded a \$63.6 million decrease, with an offset to the valuation allowance, for the year ended December 31, 2017. The Company has also completed its analysis of the deemed repatriation transition tax and has concluded that it will not owe any transition tax. Additionally, on December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the 2017 Tax Act. The Company has recognized the tax impacts related to refundable AMT credits and revaluation of deferred tax assets, offset by the valuation allowance, and included these amounts in its consolidated financial statements for the year ended December 31, 2017. During the third quarter of 2018, the Company finalized its federal and state income tax returns, making no material adjustments to provisional amounts previously recorded.

Realization of deferred tax assets is dependent upon the generation of future taxable income, the timing and amount of which are uncertain. Due to the history of losses generated in the U.S. and certain foreign jurisdictions, the Company believes that it is more likely than not that its deferred tax assets in these jurisdictions will not be realized as of December 31, 2018. Accordingly, the Company retained a full valuation allowance on its deferred tax assets in these jurisdictions. 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 valuation allowance increased by approximately \$310.0 million, \$154.1 million, and \$59.8 million during the years ended December 31, 2018, 2017, and 2016, respectively.

As of December 31, 2018, the Company had \$1,709.8 million of federal, \$1,903.8 million of state, and \$215.1 million of foreign net operating loss carryforwards, which will begin to expire in 2031 for federal and 2021 for state tax purposes. The foreign net operating loss carryforwards do not expire.

As of December 31, 2018, the Company had \$107.3 million of federal, \$65.6 million of state, and \$2.7 million of Canadian research credit carryforwards. The federal credit carryforward will begin to expire in 2029, the state credit carryforward has no expiration date, and the Canadian credit carryforward will begin to expire in 2036.

The Company has federal AMT credit carryforwards of \$1.3 million that will be refunded over the 2018-2021 tax years under the 2017 Tax Act. The Company has California Enterprise Zone credit carryforwards of \$2.8 million, which will begin to expire in 2023.

Utilization of the net operating loss carryforwards and credits may be subject to annual limitations due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended, and similar state provisions. The annual limitations may result in the expiration of net operating losses and credits before they are able to be utilized. The Company does not expect any previous ownership changes, as defined under Section 382 and 383

of the Internal Revenue Code, to result in a limitation that will reduce the total amount of net operating loss carryforwards and credits that can be utilized.

As of December 31, 2018, the unrecognized tax benefit was \$198.5 million, of which \$5.7 million would impact the annual effective tax rate if recognized and the remainder of which would result in a corresponding adjustment to the valuation allowance.

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A reconciliation of the beginning and ending amount of unrecognized tax benefit is presented below (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Balance at the beginning of the year	\$70,799	\$92,134	\$90,372
Gross increases and decreases related to prior period tax positions	513	—	5,190
Gross increases and decreases related to current period tax positions	119,261	4,193	(3,428)
Reductions related to lapse of statute of limitations	(142)	(91)	—
Gross increases and decreases related to U.S. tax reform	—	(25,437)	—
Gross increases and decreases related to acquisition	8,109	—	—
Balance at the end of the year	\$198,540	\$70,799	\$92,134

The Company recognizes interest and penalties related to income tax matters as a component of income tax expense. As of December 31, 2018, there were no significant accrued interest and penalties related to uncertain tax positions. It is reasonably possible that over the next 12-month period the Company may experience a decrease in its unrecognized tax benefits as a result of tax examinations or lapses of statute of limitations. The estimated decrease in unrecognized tax benefits may range up to \$13 million.

The Company is subject to taxation in the United States and various state and foreign jurisdictions. The Company is currently under examination in California for tax years 2013 and 2014. The Company's various tax years starting with 2009 to 2017 remain open in various taxing jurisdictions.

As of December 31, 2018, the Company has not provided deferred U.S. income taxes or foreign withholding taxes on temporary differences resulting from earnings for certain non-U.S. subsidiaries, which are permanently reinvested outside the U.S. Cumulative undistributed earnings for these non-U.S. subsidiaries as of December 31, 2018 are \$4.2 million.

NOTE 15 - STOCKHOLDERS' EQUITY

Convertible Preferred Stock

As of December 31, 2018, the Company is authorized to issue 100,000,000 shares of preferred stock, with a \$0.0000001 par value. No shares of preferred stock are outstanding as of December 31, 2018.

Common Stock

The Company has authorized the issuance of Class A common stock and Class B common stock. Holders of the Company's Class A common stock and Class B common stock are entitled to dividends when, as and if, declared by the Company's board of directors, subject to the rights of the holders of all classes of stock outstanding having priority rights to dividends. As of December 31, 2018, the Company did not declare any dividends. 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. Class A common stock and Class B common stock are referred to as common stock throughout these Notes to the Consolidated Financial Statements, unless otherwise noted. 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.

As of December 31, 2018, 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 December 31,

2018, there were 323,546,864 shares of Class A common stock and 93,501,142 shares of Class B common stock outstanding. Options and awards granted following the Company's November 2015 initial public offering are related to underlying Class A common stock. Additionally, holders of Class B common stock are able to convert such shares into Class A common stock.

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Warrants

On February 24, 2017, the Company and Starbucks entered into a Warrant Cancellation and Payment Agreement pursuant to which the Company paid Starbucks cash consideration of approximately \$54.8 million in return for the termination of the Warrant to Purchase Stock dated August 7, 2012, as amended, that provided Starbucks with the right to purchase an aggregate of approximately 9.5 million shares of the Company's common stock.

In conjunction with the 2022 Notes offering, the Company sold warrants whereby the 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 were exercised as of December 31, 2018.

In conjunction with the 2023 Notes offering, the Company sold the 2023 warrants whereby the 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. None of the warrants were exercised as of December 31, 2018.

Release of Caviar Shares Held Back

In 2014, in conjunction with the Company's acquisition of Caviar, Inc. (Caviar), 1,291,979 shares of the purchase consideration issuable were withheld for indemnification purposes. In April 2018, the Company reached an agreement with the former owners of Caviar whereby 822,085 of the shares held back were released to the former owners and 469,894 shares were forfeited back to the Company as indemnification against liabilities related to Caviar preacquisition matters. Upon reaching the agreement, the Company recorded an indemnification asset of \$2.7 million and a corresponding credit to expense to compensate for the costs previously incurred in connection with Caviar preacquisition claims. The remaining value of the forfeited shares was treated as an equity repurchase.

Conversion of 2022 Notes and Exercise of the 2022 Convertible Note Hedges

In connection with the conversion of certain of the 2022 Notes, the Company issued 7.3 million shares of Class A common stock. The Company also exercised a pro-rata portion of the 2022 convertible note hedges and received 6.9 million shares of Class A common stock from the counterparties to offset the shares issued.

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. Effective November 17, 2015, no additional awards will be granted under the 2009 Plan.

Under the 2015 Plan, shares of shares of the Company's Class A common stock are reserved for the issuance of incentive and nonstatutory stock options (ISOs and NSOs, respectively), 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 administrator. As of December 31, 2018, the total number of shares subject to stock options, RSAs and RSUs outstanding under the 2015 Plan was 22,666,464 shares, and 64,851,998 shares were available for future issuance. Under the 2009 Plan, shares of common stock are reserved for the issuance of ISOs or NSOs to eligible participants. The options may be granted at a price per share not less than the fair market value at the date of grant. Options granted generally vest over a four-year term from the date of grant, at a rate of 25% after one year, then monthly on a straight-line basis thereafter. Generally, options granted are exercisable for up to 10 years from the date of grant. The Plan allows for early exercise of employee stock options whereby the option holder is allowed to exercise prior to vesting. Any unvested shares are subject to repurchase by the Company at their original exercise prices. As of December 31, 2018, the total number of options and RSUs outstanding under the 2009 Plan was 28,421,145 shares.

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A summary of stock option activity for the year ended December 31, 2018 is as follows (in thousands, except share and per share data):

	Number of options outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Balance at December 31, 2017	47,270,091	\$ 8.67	6.52	\$ 1,229,103
Granted	783,625	44.75		
Exercised	(13,402,680)	7.98		
Forfeited and canceled	(1,498,155)	14.75		
Balance at December 31, 2018	33,152,881	\$ 9.52	5.45	\$ 1,543,793
Options vested and expected to vest at December 31, 2018	33,152,881	\$ 9.52	5.45	\$ 1,543,793
Options exercisable at December 31, 2018	31,066,578	\$ 8.63	5.27	\$ 1,474,339

Aggregate intrinsic value represents the difference between the Company's estimated fair value of its common stock and the exercise price of outstanding, "in-the-money" options. Aggregate intrinsic value for stock options exercised through December 31, 2018, 2017, and 2016 was \$720.1 million, \$464.1 million, and \$202.6 million, respectively.

The total weighted average grant-date fair value of options granted was \$16.25, \$5.97 and \$5.80 per share for the years ended December 31, 2018, 2017 and 2016, respectively.

Restricted Stock Activity

The Company issues RSAs and RSUs under the 2015 Plan, which typically vest over a term of four years.

Activity related to RSAs and RSUs during the year ended December 31, 2018 is set forth below:

	Number of shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2017	21,317,525	\$ 17.84
Granted	7,147,541	54.43
Vested	(7,786,561)	19.62
Forfeited	(2,743,777)	19.88
Unvested at December 31, 2018	17,934,728	\$ 31.34

Employee Stock Purchase Plan

On November 17, 2015, the Company's 2015 Employee Stock Purchase Plan (ESPP) became effective. The ESPP allows eligible employees to purchase shares of the Company's common stock at a discount through payroll deductions of up to 15% of their eligible compensation, subject to any plan limitations. The ESPP provides for 12-month offering periods. The offering periods are scheduled to start on the first trading day on or after May 15 and November 15 of each year, except for the first offering period, which commenced on November 19, 2015 and ended on November 15, 2016. Each offering period includes two purchase periods, which begin on the first trading day on or after November 15 and May 15, and ending on the last trading day on or before May 15 and November 15, respectively. Employees are able to purchase shares at 85% of the lower of the fair market value of the Company's common stock on the first trading day of the offering period or the last trading day of the purchase period. The number of shares available for sale under the ESPP will be increased annually on the first day of each fiscal year, equal to the least of (i) 8,400,000 shares, (ii) 1% of the outstanding shares of the Company's common stock as of the last day of the immediately preceding fiscal year, or (iii) such other amount as determined by the administrator.

As of December 31, 2018, 4,349,301 shares had been purchased under the ESPP and 10,797,606 shares were available for future issuance under the ESPP. The Company recorded \$9.0 million and \$6.0 million of share-based compensation expense related to the ESPP during the year ended December 31, 2018 and 2017, respectively.

Share-Based Compensation

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

	Year Ended December 31,					
	2018	2017	2016	2018	2017	2016
Dividend yield	—	%	—	%	—	%
Risk-free interest rate	2.92	%	1.88	%	1.54	%
Expected volatility	30.87	%	32.22	%	42.74	%
Expected term (years)	6.19		6.02		6.08	

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

	Year Ended December 31,		
	2018	2017	2016
Cost of revenue	\$97	\$77	\$—
Product development	144,601	98,310	91,404
Sales and marketing	22,797	17,568	14,122
General and administrative	49,386	39,881	33,260
Total	\$216,881	\$155,836	\$138,786

The Company capitalized \$9.3 million, \$3.7 million, and \$2.8 million of share-based compensation expense related to capitalized software during the year ended December 31, 2018, 2017 and 2016, respectively.

As of December 31, 2018, there was \$564.5 million of total unrecognized compensation cost related to outstanding stock options and restricted stock awards that are expected to be recognized over a weighted average period of 2.76 years.

NOTE 16 - NET LOSS PER SHARE

Basic net loss per share is computed by dividing the net loss by the weighted-average number of shares of common stock outstanding during the period. Diluted loss per share is the same as basic loss per share for all years presented because the effects of potentially dilutive items were anti-dilutive given the Company's net loss.

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

	Year Ended December 31,		
	2018	2017	2016
Net loss	\$(38,453)	\$(62,813)	\$(171,590)
Basic shares:			
Weighted-average common shares outstanding	406,313	380,921	344,393
Weighted-average unvested shares	(582)	(1,577)	(2,838)
Weighted-average shares used to compute basic net loss per share	405,731	379,344	341,555
Diluted shares:			
Weighted-average shares used to compute diluted net loss per share	405,731	379,344	341,555
Loss per share:			
Basic	\$(0.09)	\$(0.17)	\$(0.50)
Diluted	\$(0.09)	\$(0.17)	\$(0.50)

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. In the periods that the Company has reported a net loss, the diluted loss per share is the same as basic loss per share for those periods.

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

	Year Ended December 31,		
	2018	2017	2016
Stock options and restricted stock units	60,589	68,588	88,705
Common stock warrants	25,798	19,173	9,457
Convertible senior notes	23,820	—	—
Unvested shares	582	1,300	1,892
Employee stock purchase plan	140	157	216
Total anti-dilutive securities	110,929	89,218	100,270

NOTE 17 - COMMITMENTS AND CONTINGENCIES

Operating and Capital Leases

The Company has entered into various non-cancelable operating leases for certain offices with contractual lease periods expiring between 2019 and 2031. The Company recognized total rental expenses under operating leases of \$23.3 million, \$12.9 million, and \$11.3 million during the years ended December 31, 2018, 2017, and 2016, respectively.

Future minimum lease payments under non-cancelable operating leases (with initial lease terms in excess of one year) and future minimum capital lease payments as of December 31, 2018 are as follows (in thousands):

	Capital	Operating
Year:		
2019	\$5,029	\$28,405
2020	2,446	38,131
2021	—	52,319
2022	—	53,430
2023	—	47,222
Thereafter	—	209,959
Total	\$7,475	\$429,466
Less amount representing interest	—	
Present value of capital lease obligations	7,475	
Less current portion of capital lease obligation	(5,029)	
Non-current portion of capital lease obligation	\$2,446	

Build-to-Suit Lease Arrangement

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 renew for two five year terms. The lease commencement date is expected to be in November 2019 with total lease payments over the term of approximately \$272 million.

Due to the Company's involvement with the construction of the property and its exposure to any potential cost overruns, the Company is deemed to be the owner of the property for accounting purposes during the construction phase. Accordingly, as of December 31, 2018, the Company recorded a non-cash build-to-suit lease asset under construction of \$149 million, and a corresponding build-to-suit lease liability on the 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 services, 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 for fiscal years 2014 and 2015 in the first quarter of 2018, as assessed by the Tax Collector. The Company intends to vigorously defend its position, which it believes has merit. 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 together, in aggregate, could be material. The Company is currently unable to estimate the range of possible loss given the uncertainties associated with this matter, including uncertainties about the Tax Collector's rationale for its position and about the amounts that may ultimately be subject to such taxes.

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

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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. Caviar filed a Motion to Compel Arbitration on December 12, 2018. 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. 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 18 - 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 merchants. The following table sets forth revenue by geographic area (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Revenue			
United States	\$3,138,859	\$2,120,088	\$1,643,852
International	159,318	94,165	64,869
Total net revenue	\$3,298,177	\$2,214,253	\$1,708,721

No individual country from the international markets contributed in excess of 10% of total revenue for the years ended December 31, 2018, 2017, and 2016.

Long-Lived Assets

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

	December 31,	
	2018	2017
Long-lived assets		
United States	\$471,970	\$158,820
International	9,239	5,337
Total long-lived assets	\$481,209	\$164,157

NOTE 19 - SUPPLEMENTAL CASH FLOW INFORMATION

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

	Year Ended December 31,		
	2018	2017	2016
Supplemental Cash Flow Data:			
Cash paid for interest	\$4,125	\$1,374	\$570
Cash paid for income taxes	1,622	1,254	395
Supplemental disclosures of non-cash investing and financing activities:			
Change in purchases of property and equipment in accounts payable and accrued expenses	15,067	143	2,554
Unpaid business acquisition purchase price	3,995	2,115	240
Fair value of shares issued related to business combination	140,107	—	—
Recovery of common stock in connection with indemnification settlement agreement	2,745	—	—
Fair value of common stock issued to settle the conversion of senior notes, due 2022	(571,408)	—	—
Fair value of shares received to settle senior note hedges, due 2022	\$544,276	\$—	\$—

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. 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 Annual Report on Form 10-K. 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 December 31, 2018, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended December 31, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

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Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our management conducted an assessment of the effectiveness of our internal control over financial reporting based on the criteria established in “Internal Control - Integrated Framework” (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that assessment, our management has concluded that our internal control over financial reporting was effective as of December 31, 2018. The effectiveness of our internal control over financial reporting as of December 31, 2018 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which appears herein.

We acquired Weebly, Inc. on May 31, 2018, and our management excluded from our assessment of the effectiveness of our internal control over financial reporting as of December 31, 2018, Weebly, Inc.’s internal control over financial reporting associated with 2% of total assets and 1% of total net revenue included in the consolidated financial statements as of and for the year ended December 31, 2018.

Item 9B. OTHER INFORMATION

None.

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PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item will be included under the captions "Board of Directors and Corporate Governance" and "Executive Officers" in our Proxy Statement for the 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2018 (Proxy Statement) and is incorporated herein by reference. The information required by this item regarding delinquent filers pursuant to Item 405 of Regulation S-K will be included under the caption "Other Matters--Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement and is incorporated herein by reference.

Item 11. EXECUTIVE COMPENSATION

The information required by this item will be included under the captions "Board of Directors and Corporate Governance--Director Compensation," "Executive Compensation," and "Board of Directors and Corporate Governance--Compensation Committee Interlocks and Insider Participation" in the Proxy Statement and is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item will be included under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" in the Proxy Statement and is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item will be included under the captions "Certain Relationships, Related Party and Other Transactions" and "Board of Directors and Corporate Governance--Director Independence" in the Proxy Statement and is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item will be included under the caption "Ratification Of Appointment Of Independent Registered Public Accounting Firm" in the Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as a part of this Annual Report on Form 10-K:

(1) Consolidated Financial Statements:

Our Consolidated Financial Statements are listed in the “Index to Consolidated Financial Statements” under Part II, Item 8 of this Annual Report on Form 10-K.

(2) Financial Statement Schedules:

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes herein.

(3) Exhibits

The documents listed in the following Exhibit Index of this Annual Report on Form 10-K are incorporated by reference or are filed with this Annual Report on Form 10-K, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K):

EXHIBIT INDEX

Exhibit Number	Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
<u>2.1</u>	<u>Agreement and Plan of Reorganization, dated as of April 26, 2018, by and among the Registrant, Weebly, Inc., Forest Merger Sub, Inc., Forest Merger LLC and Shareholder Representative Services.</u>	8-K	001-37622	2.1	April 26, 2018
<u>3.1</u>	<u>Amended and Restated Certificate of Incorporation of the Registrant.</u>	8-K	001-37622	3.1	November 24, 2015
<u>3.2</u>	<u>Amended and Restated Bylaws of the Registrant.</u>	8-K	001-37622	3.1	November 3, 2017
<u>4.1</u>	<u>Form of Class A common stock certificate of the Registrant.</u>	S-1/A	333-207411	4.1	November 6, 2015
<u>4.2</u>	<u>Fifth Amended and Restated Investors’ Rights Agreement among the Registrant and certain holders of its capital stock, dated as of September 9, 2014.</u>	S-1	333-207411	4.2	October 14, 2015
<u>4.3</u>	<u>Indenture, dated March 6, 2017, between the Registrant and The Bank of New York Mellon Trust Company, N.A.</u>	8-K	001-37622	4.1	March 6, 2017
<u>4.4</u>	<u>Form of 0.375% Convertible Senior Notes due 2022 (included in Exhibit 4.3).</u>	8-K	001-37622	4.2	March 6, 2017
<u>4.5</u>	<u>Indenture, dated May 25, 2018, by and between the Registrant and The Bank of New York Mellon Trust Company, N.A.</u>	8-K	001-37622	4.1	May 25, 2018
<u>4.6</u>	<u>Form of 0.50% Convertible Senior Note due 2023 (included in Exhibit 4.5).</u>	8-K	001-37622	4.2	May 25, 2018
<u>10.1+</u>	<u>Form of Indemnification Agreement between the Registrant and each of its directors and executive officers.</u>	S-1/A	333-207411	10.1	November 6, 2015
<u>10.2+</u>	<u>Square, Inc. 2015 Equity Incentive Plan, as amended and restated, and related form agreements.</u>	10-Q	001-37622	10.1	August 2, 2017
<u>10.3+</u>	<u>Square, Inc. 2015 Employee Stock Purchase Plan, as amended and restated, and related form agreements.</u>	10-K	001-37622	10.3	March 10, 2016
<u>10.4+</u>	<u>Square, Inc. 2009 Stock Plan and related form agreements.</u>	S-1	333-207411	10.4	

				October 14, 2015
<u>10.5+</u>	<u>Square, Inc. Executive Incentive Compensation Plan.</u>	S-1	333-207411 10.5	October 14, 2015
<u>10.6+</u>	<u>Square, Inc. Outside Director Compensation Policy, as amended and restated.</u>			
<u>10.7+</u>	<u>Form of Change of Control and Severance Agreement between the Registrant and certain of its executive officers.</u>	S-1	333-207411 10.7	October 14, 2015
<u>10.8+</u>	<u>Offer Letter between the Registrant and Jack Dorsey, dated as of March 7, 2016.</u>	10-K	001-37622 10.8	March 10, 2016

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<u>10.9+</u>	<u>Offer Letter between the Registrant and Alyssa Henry, dated as of October 1, 2015.</u>	S-1/A 333-207411	10.12	November 6, 2015
<u>10.10+</u>	<u>Offer Letter between the Registrant and Jacqueline D. Reses, dated as of October 2, 2015</u>	10-Q 001-37622	10.6	May 4, 2017
<u>10.11+</u>	<u>Offer Letter between the Registrant and Amrita Ahuja, dated as of December 16, 2018</u>	8-K 001-37622	10.1	January 4, 2019
<u>10.12</u>	<u>Office Lease by and between the Registrant and Hudson 1455 Market, LLC, dated as of October 17, 2012, as amended on March 22, 2013, January 22, 2014, June 6, 2014, February 1, 2015, April 27, 2015, June 18, 2015, October 5, 2016, and October 6, 2016.</u>	10-Q 001-37622	10.7	May 4, 2017
<u>10.13</u>	<u>Ninth Amendment to Office Lease by and between the Registrant and Hudson 1455 Market Street, LLC, dated as of December 19, 2017.</u>	10-K 001-37622	10.15	February 27, 2018
<u>10.14</u>	<u>Tenth Amendment to Office Lease by and between the Registrant and Hudson 1455 Market Street, LLC, dated as of May 17, 2018.</u>	10-Q 001-37622	10.5	August 1, 2018
<u>10.15</u>	<u>Eleventh Amendment to Office Lease by and between the Registrant and Hudson 1455 Market Street, LLC, dated as of June 25, 2018.</u>	10-Q 001-37622	10.6	August 1, 2018
<u>10.16</u>	<u>Revolving Credit Agreement dated as of November 2, 2015 among the Registrant, the Lenders Party Thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent.</u>	S-1/A 333-207411	10.14	November 6, 2015
<u>10.17</u>	<u>Commitment Letter dated October 30, 2015 by Goldman Sachs Lending Partners LLC.</u>	S-1/A 333-207411	10.14A	November 16, 2015
<u>10.18</u>	<u>First Amendment to Credit Agreement, dated as of February 27, 2017, among the Registrant, the Lenders Party Thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent</u>	8-K 001-37622	10.1	February 27, 2017
<u>10.19</u>	<u>Second Amendment to Credit Agreement, dated as of May 21, 2018, among the Registrant, the Lenders Party Thereto, and JP Morgan Chase Bank, N.A., as Administrative Agent.</u>	8-K 001-37622	10.1	May 21, 2018
<u>10.20#</u>	<u>Master Development and Supply Agreement by and between the Registrant and TDK Corporation, dated as of October 1, 2013.</u>	S-1 333-207411	10.15	October 14, 2015
<u>10.21#</u>	<u>Master Manufacturing Agreement by and between the Registrant and Cheng Uei Precision Industry Co., Ltd., dated as of June 27, 2012.</u>	S-1 333-207411	10.16	October 14, 2015
<u>10.22#</u>	<u>ASIC Development and Supply Agreement by and between the Registrant, Semiconductor Components Industries, LLC (d/b/a ON Semiconductor) and ON Semiconductor Trading, Ltd., dated as of March 25, 2013.</u>	S-1 333-207411	10.17	October 14, 2015
<u>10.23</u>	<u>Amendment 1 to ASIC Development and Supply Agreement, dated as of January 15, 2019.</u>			
<u>10.24</u>	<u>Warrant Cancellation and Payment Agreement, dated as of February 24, 2017, by and between the Registrant and Starbucks Corporation.</u>	8-K 001-37622	10.1	February 24, 2017
<u>10.25</u>	<u>Purchase Agreement, dated February 28, 2017, by and among the Registrant and Goldman, Sachs & Co. and J.P. Morgan Securities LLC, as representatives of the initial purchasers named therein.</u>	8-K 001-37622	10.1	March 6, 2017
<u>10.26</u>	<u>Form of Convertible Note Hedge Confirmation.</u>	8-K 001-37622	10.2	March 6, 2017
<u>10.27</u>	<u>Form of Warrant Confirmation.</u>	8-K 001-37622	10.3	March 6, 2017
<u>10.28</u>	<u>Purchase Agreement, dated May 22, 2018, by and among the Registrant and Goldman Sachs & Co. LLC.</u>	8-K 001-37622	10.1	May 25, 2018
<u>10.29</u>	<u>Form of Convertible Note Hedge Confirmation.</u>	8-K 001-37622	10.2	May 25, 2018

<u>10.30</u>	<u>Form of Warrant Confirmation.</u>	8-K	001-37622	10.3	May 25, 2018
<u>21.1</u>	<u>List of subsidiaries of the Registrant.</u>				
<u>23.1</u>	<u>Consent of KPMG LLP, Independent Registered Public Accounting Firm.</u>				
<u>31.1</u>	<u>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.</u>				
<u>31.2</u>	<u>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.</u>				

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.INS XBRL Instance Document.

101.SCH XBRL Taxonomy Extension Schema Document.

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.

101.DEF XBRL Taxonomy Extension Definition Linkbase Document.

101.LAB XBRL Taxonomy Extension Labels Linkbase Document.

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

+Indicates management contract or compensatory plan.

The Registrant has omitted portions of the relevant exhibit and filed such exhibit separately with the Securities and Exchange Commission pursuant to a request for confidential treatment under Rule 406 of the Securities Act of 1933, as amended.

The certifications attached as Exhibit 32.1 that accompany this Annual Report on Form 10-K are deemed furnished and not filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of the Registrant 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 Annual Report on Form 10-K, irrespective of any general incorporation language contained in such filing.

Item 16. FORM 10-K SUMMARY

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 27, 2019

SQUARE, INC.

By: /s/ Jack Dorsey

Jack Dorsey

President, Chief Executive Officer, and Chairman

POWER OF ATTORNEY

Each person whose signature appears below hereby constitutes and appoints Jack Dorsey, Amrita Ahuja and Sivan Whiteley, and each of them, as his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully for all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their, his or her substitutes, may lawfully do or cause to be done by virtue hereof.

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Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Jack Dorsey Jack Dorsey	President, Chief Executive Officer, and Chairman (Principal Executive Officer)	February 27, 2019
/s/ Amrita Ahuja Amrita Ahuja	Chief Financial Officer (Principal Financial Officer)	February 27, 2019
/s/ Ajmere Dale Ajmere Dale	Chief Accounting Officer (Principal Accounting Officer)	February 27, 2019
/s/ Roelof Botha Roelof Botha	Director	February 27, 2019
/s/ Paul Deighton Paul Deighton	Director	February 27, 2019
/s/ Randy Garutti Randy Garutti	Director	February 27, 2019
/s/ Jim McKelvey Jim McKelvey	Director	February 27, 2019
/s/ Mary Meeker Mary Meeker	Director	February 27, 2019
/s/ Anna Patterson Anna Patterson	Director	February 27, 2019
/s/ Naveen Rao Naveen Rao	Director	February 27, 2019
/s/ Ruth Simmons Ruth Simmons	Director	February 27, 2019
/s/ Lawrence Summers Lawrence Summers	Director	February 27, 2019
/s/ David Viniar David Viniar	Director	February 27, 2019