
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 8-K/A
(Amendment No. 1)

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (date of earliest event reported): January 28, 2022

Block, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

001-37622
(Commission
File No.)

80-0429876
(IRS Employer
Identification No.)

Not Applicable¹
(Address of principal executive offices)

(415) 375-3176
(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 (*see* General Instruction A.2. below):

- ☐ 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))

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 is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

- ☐ 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.

¹ We do not designate a headquarters location as we have adopted a distributed work model.

Explanatory Note

This Amendment No. 1 on Form 8-K/A amends the Current Report on Form 8-K filed by Block, Inc. (the “Company”) with the Securities and Exchange Commission on January 31, 2022 (the “Original Form 8-K”). The Original Form 8-K reported the completion of the Company’s acquisition (the “Transaction”) of Afterpay Limited (“Afterpay”).

This amendment amends and supplements the Original Form 8-K solely to provide the financial statements and pro forma financial information required under Item 9.01 of Form 8-K. This amendment reports no other updates or amendments to the Original Form 8-K. The pro forma financial information included in this amendment has been presented for informational purposes only, as required by Form 8-K. It does not purport to represent the actual results of operations that the Company and Afterpay would have achieved had the companies been combined during the periods presented in the pro forma financial information and is not intended to project the future results of operations that the combined company may achieve after completion of the Transaction.

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements of Business Acquired.

The audited consolidated financial statements of Afterpay as of and for the years ended June 30, 2021, 2020 and 2019 appearing in Annex B to the Definitive Proxy Statement on Schedule 14A of the Company, dated October 5, 2021, are incorporated herein by reference as Exhibit 99.1.

The unaudited consolidated financial statements of Afterpay as of December 31, 2021 and for the six months ended December 31, 2021 and 2020 are attached hereto as Exhibit 99.2 and incorporated herein by reference.

(b) Pro Forma Financial Information.

The unaudited pro forma combined financial statements of the Company as of December 31, 2021 and for the year ended December 31, 2021 are attached hereto as Exhibit 99.3 and incorporated herein by reference.

(d) Exhibits.

Exhibit Number	Description
23.1	<u>Consent of Ernst & Young.</u>
99.1	<u>Audited consolidated financial statements of Afterpay Limited, as of and for the years ended June 30, 2021, 2020 and 2019 (incorporated by reference to Annex B to the Definitive Proxy Statement on Schedule 14A of Block, Inc., dated October 5, 2021).</u>
99.2	<u>Unaudited consolidated financial statements of Afterpay Limited, as of December 31, 2021 and for the six months ended December 31, 2021 and 2020.</u>
99.3	<u>Unaudited pro forma combined financial statements of Block, Inc., as of December 31, 2021 and for the year ended December 31, 2021.</u>
104	Cover Page Interactive Data File, formatted in inline XBRL.

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 hereunto duly authorized.

Date: April 11, 2022

BLOCK, INC.

By: /s/ Sivan Whiteley

Name: Sivan Whiteley

Title: Chief Legal Officer and Corporate Secretary

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Nos. 333-263001, 333-253410, 333-236661, 333-229919, 333-223271, 333-216249, 333-210087 and 333-208098) on Form S-8 of Block, Inc. of our report dated September 6, 2021, relating to the consolidated financial statements of Afterpay Limited as of and for the years ended June 30, 2021, 2020 and 2019 appearing in Annex B to the Definitive Proxy Statement on Schedule 14A of Block, Inc. dated October 5, 2021, and which is incorporated by reference into this Current Report on Form 8-K/A of Block, Inc.

/s/ Ernst & Young
Melbourne, Australia
April 11, 2022



Afterpay Limited

Consolidated Financial Statements

for the six months ended 31 December 2021

Consolidated Statement of Comprehensive Income

For the six months ended 31 December	Note	2021 \$'000	2020 \$'000
Afterpay income		560,790	374,245
Pay Now revenue		5,616	7,834
Late fees and other income		78,531	35,126
Total income		644,937	417,205
Cost of sales		(181,637)	(110,348)
Gross profit		463,300	306,857
Depreciation and amortisation expenses		(27,379)	(17,742)
Employment expenses		(111,994)	(62,589)
Share-based payment expenses		(30,209)	(25,536)
Receivables impairment expenses	4	(176,754)	(72,133)
Net loss on financial liabilities at fair value	6	(30,796)	(64,802)
Marketing expenses		(137,572)	(69,173)
Other operating expenses		(212,294)	(63,047)
Operating loss		(263,698)	(68,165)
Share of gain/(loss) of associate		6,049	(558)
Gain on dilution of shareholding in associate	8	7,151	1,862
Finance income		50	625
Finance costs		(251,466)	(9,929)
Loss before tax		(501,914)	(76,165)
Income tax benefit/(expense)	3	156,410	(3,046)
Loss after tax		(345,504)	(79,211)
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods (net of tax)			
<i>Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods (net of tax)</i>			
Exchange differences on translation of foreign operations		46,517	(49,112)
Total comprehensive loss, net of tax		(298,987)	(128,323)
Loss after tax attributable to:			
Ordinary shareholders of Afterpay Limited		(344,879)	(76,492)
Non-controlling interests		(625)	(2,719)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at		31 December 2021	30 June 2021
	Note	\$'000	\$'000
ASSETS			
Current Assets			
Cash and cash equivalents		816,504	1,147,147
Receivables	4	2,089,609	1,454,072
Other financial assets		43,029	26,788
Other current assets		42,965	18,780
Income tax receivable		7,553	10,970
Total Current Assets		2,999,660	2,657,757
Non-Current Assets			
Property, plant and equipment		9,420	8,112
Right-of-use assets		45,271	33,958
Intangible assets		255,741	227,513
Deferred tax assets	3	340,272	156,127
Investments	8	53,664	23,578
Other non-current assets		14,286	9,182
Total Non-Current Assets		718,654	458,470
TOTAL ASSETS		3,718,314	3,116,227
LIABILITIES			
Current Liabilities			
Trade and other payables		403,010	306,259
Other liabilities		12,734	14,460
Lease liabilities		24,649	2,201
Borrowings	5	1,493,034	—
Other financial liabilities	6	197,895	—
Income tax payable		—	2,477
Total Current Liabilities		2,131,322	325,397
Non-Current Liabilities			
Other non-current liabilities		2,037	1,894
Lease liabilities		16,073	31,999
Borrowings	5	507,608	1,286,383
Other financial liabilities	6	—	166,648
Total Non-Current Liabilities		525,718	1,486,924
TOTAL LIABILITIES		2,657,040	1,812,321
NET ASSETS		1,061,274	1,303,906
EQUITY			
Issued capital		2,784,564	2,204,450
Accumulated losses		(591,532)	(246,653)
Reserves		(1,132,612)	(654,704)
Equity attributable to the ordinary shareholders of Afterpay Limited		1,060,420	1,303,093
Non-controlling interests		854	813
TOTAL EQUITY		1,061,274	1,303,906

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

	Issued Capital (Note 7)	Accumulated Losses	Foreign Currency Translation Reserve	Other reserves	Total	Non- Controlling Interest	Total
For the six months ended 31 December 2021	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2021	2,204,450	(246,653)	(50,048)	(604,656)	1,303,093	813	1,303,906
Loss after tax	—	(344,879)	—	—	(344,879)	(625)	(345,504)
Other comprehensive income	—	—	46,517	—	46,517	—	46,517
Total comprehensive loss	—	(344,879)	46,517	—	(298,362)	(625)	(298,987)
Transactions							
Issue of ordinary shares on conversion of Matrix Convertible Notes	545,285	—	—	(545,285)	—	—	—
Share options, RSUs and loan shares exercised (net of tax)	34,829	—	—	1,836	36,665	303	36,968
Share-based payments	—	—	—	19,024	19,024	363	19,387
At 31 December 2021	2,784,564	(591,532)	(3,531)	(1,129,081)	1,060,420	854	1,061,274

	Issued Capital	Accumulated Losses	Foreign Currency Translation Reserve	Other reserves	Total	Non- Controlling Interest	Total
For the six months ended 31 December 2020	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2020	975,317	(90,355)	(18,725)	77,436	943,673	2,678	946,351
Loss after tax	—	(76,492)	—	—	(76,492)	(2,719)	(79,211)
Other comprehensive loss	—	—	(49,112)	—	(49,112)	—	(49,112)
Total comprehensive loss	—	(76,492)	(49,112)	—	(125,604)	(2,719)	(128,323)
Transactions							
Issue of share capital	786,167	—	—	—	786,167	—	786,167
Issue of ordinary shares, as consideration for a business combination, net of transaction costs and tax	1,737	—	—	—	1,737	—	1,737
Share issue expenses (net of tax)	(11,741)	—	—	—	(11,741)	—	(11,741)
Share options, RSUs and loan shares exercised (net of tax)	33,457	—	—	78,378	111,835	345	112,180
Share-based payments	—	—	—	18,715	18,715	526	19,241
At 31 December 2020	1,784,937	(166,847)	(67,837)	174,529	1,724,782	830	1,725,612

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the six months ended 31 December	2021 \$'000	2020 \$'000
Cash flows from operating activities		
Receipts from customers	13,126,716	8,443,811
Payments to employees	(133,007)	(64,769)
Payments to merchants and suppliers	(13,749,503)	(8,905,608)
Income taxes paid	(1,108)	(227)
Net cash outflow from operating activities	(756,902)	(526,793)
Cash flows from investing activities		
Interest received	50	531
(Increase)/decrease in short-term deposits	(9,855)	(6,521)
Payments for purchase and development of intangible assets	(45,877)	(28,630)
Purchase of plant and equipment	(5,719)	(1,342)
Acquisition of subsidiaries, net of cash acquired	—	(201)
Increase in investments	(16,677)	(15,000)
Net cash outflow from investing activities	(78,078)	(51,163)
Cash flows from financing activities		
Proceeds from borrowings	702,570	466,687
Repayment of borrowings	(222,022)	(812,940)
Proceeds from issue of shares	—	786,167
Share issue expenses	—	(17,447)
(Increase)/decrease in restricted cash	(11,266)	(131)
Proceeds from exercise of share options	14,890	18,910
Payment of lease liabilities	(3,783)	(2,835)
Interest and bank fees paid	(10,152)	(5,875)
Net cash inflow from financing activities	470,237	432,536
Net decrease in cash and cash equivalents	(364,743)	(145,420)
Foreign exchange on cash balance	34,100	(1,826)
Cash and cash equivalents at beginning of the period	1,147,147	606,041
Cash and cash equivalents at end of the period	816,504	458,795

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

1. Corporate information

Afterpay Limited (the Company or APT) is a for-profit company incorporated on March 30, 2017 and domiciled in Australia. The securities of the Company were listed on the Australian Securities Exchange (ASX) under the code 'APT' prior to acquisition by Block, Inc. (Block, formerly Square, Inc.), as discussed below. The principal activities of Afterpay Limited and its subsidiaries (together referred to as the Group or Afterpay) are to provide technology-driven payments solutions for customers and merchants through its Afterpay and Pay Now services and businesses. The Group's principal place of business is Level 8, Queen and Collins Tower, 376-390 Collins Street, Melbourne, Victoria, Australia.

On January 31, 2022 (February 1, 2022 Australian Eastern Daylight Time) (the acquisition date), Block completed the acquisition of Afterpay. Upon acquisition, Afterpay ceased to be a listed company on the ASX. Further details are included in Note 12.

2. Basis of preparation

These financial statements:

- are general-purpose financial statements, which have been prepared in accordance with IAS 34 *Interim Financial Reporting*;
- do not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual report;
- apply significant accounting policies consistently to all periods presented, and consistent with those adopted and disclosed in the Afterpay Annual Report for the year ended 30 June 2021, unless otherwise stated. These policies comply with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board;
- have been prepared on a going concern basis using historical cost basis, except for the revaluation of certain financial instruments that are measured at fair value;
- are presented in Australian dollars. All values are rounded to the nearest thousand (\$'000), except when otherwise indicated; and
- where necessary, comparative information has been restated to conform to changes in presentation in the current year.

3. Taxation

Income tax expense

For the six months ended 31 December	2021 \$'000	2020 \$'000
The major components of income tax expense:		
Current income tax charge		
Current income tax expense	(17,870)	(22,523)
Adjustments in respect of current income tax of previous years	(529)	—
Deferred income tax		
Relating to origination/reversal of temporary differences	173,883	19,477
Adjustment in relation to deferred income tax of previous years	926	—
Income tax benefit/(expense)	156,410	(3,046)

Statement of changes in equity

For the six months ended 31 December	2021 \$'000	2020 \$'000
Current income tax related to share-based payments	(21,426)	(100,623)
Deferred income tax related to capital raising costs	—	(5,032)
Total income tax related to items credited directly to equity	(21,426)	(105,655)

Deferred income tax

As at	31 December 2021 \$'000	30 June 2021 \$'000
Deferred tax liabilities		
Capitalisation of development expenditure	906	3,019
Acquired intangibles	1,513	2,554
Unrealised foreign exchange	1,105	1,295
Deferred receivables	12,641	12,071
SGX Convertible Notes	2,090	67,113
Other	7,802	455
Gross deferred tax liabilities	26,057	86,507
Deferred tax assets		
Capitalisation of development expenditure	5,293	4,303
Employee benefits	16,606	16,053
Other provisions	4,171	1,722
Capital raising costs	4,983	6,140
Research and development offsets	3,866	3,763
Provision for expected credit losses	42,895	29,252
Deferred receivables	3,721	2,993
Losses	237,246	175,284
Block, Inc. transaction costs	29,238	—
Other	18,310	3,124
Gross deferred tax assets	366,329	242,634
Net deferred tax assets	340,272	156,127

Significant accounting judgements, estimates and assumptions

Timing of recognition of deferred tax balances

Deferred tax assets are recognised only to the extent that it is probable they will be utilized against future taxable profits not arising from the reversal of existing deferred tax liabilities. Judgment is required in determining the probability, timing and extent of the forecast future profits, particularly in tax jurisdictions where there is a history of losses.

The determination of future forecast profits uses operating budgets and strategic business plans based on management's view of the expected long-term growth profile, adjusted for tax differences. The utilization of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences (future taxable profits). The amount of deferred tax assets dependent on future taxable profits and which relate to tax jurisdictions where the taxable entities have suffered a loss in the current or preceding year was \$237.2 million at 31 December 2021 (30 June 2021: \$175.3 million). The Group also has \$11.5 million in deferred tax assets which have not been recognised (30 June 2021: \$9.3 million) as they are not considered probable to be recoverable based on current forecasts.

The inclusion of forward-looking information increases the degree of judgment required. Differences between the future profits of the Group (and the timing of these profits) and the tax positions in the financial report of the Group could necessitate future adjustments to the deferred tax balances recorded.

4. Receivables

As at	31 December 2021 \$'000	30 June 2021 \$'000
Consumer receivables - face value	2,222,817	1,555,774
Consumer receivables - recognised over time ¹	(27,206)	(22,387)
Consumer receivables	2,195,611	1,533,387
Provision for expected credit losses - consumer receivables	(151,112)	(99,605)
Trade and other receivables	45,110	20,290
Total receivables	2,089,609	1,454,072
Provision for expected credit losses - consumer receivables		
Opening balance	(99,605)	(33,951)
Provided in the period	(176,754)	(195,056)
Debts written off/collected	125,247	129,402
Total provision for expected credit losses - consumer receivables	(151,112)	(99,605)

1. Recognized over time represents the consumer transactions completed by period end but earned over the collection period of the consumer receivables.

Significant accounting judgements, estimates and assumptions

Judgement is applied in measuring the Provision for expected credit losses (ECL) and determining whether the risk of default has increased significantly since initial recognition of the Consumer receivable. The Group considers both quantitative and qualitative information, including historical loss experience, internal expert risk assessment and data examination, and forward-looking information and analysis. Historical balances, as well as the proportion of those balances that have defaulted over time, are used as a basis to determine the probability of default.

The Group also considers forward looking adjustments, including macro-economic seasonality trends that are not captured within the base ECL calculations. The inclusion of forward-looking information increases the degree of judgment required to assess effects on the Group's ECLs. COVID-19 continues to impact economies around the globe on both a micro- and macro-economic level. Consistent with 30 June 2021, the Group continues to review judgements, estimates and assumptions specific to the impact of COVID-19, where relevant, in the measurement of ECL. However, the Group's collections subsequent to period end have not deteriorated relative to past experience.

The assumptions and methodologies applied are reviewed regularly.

5. Borrowings

As at	31 December 2021 \$'000	30 June 2021 \$'000
Secured interest bearing borrowings	507,608	33,330
Matrix Convertible Notes	—	99
SGX Convertible Notes	1,493,034	1,252,954
Total borrowings	2,000,642	1,286,383
Total Current	1,493,034	—
Total Non-Current	507,608	1,286,383
Total borrowings	2,000,642	1,286,383

Borrowings are classified as non-current when there is no obligation or expectation that the liability will be settled within the next 12 months at the reporting date.

Secured interest bearing borrowings

The Group has several warehousing facilities that are secured against the respective receivables, which are transferred into the facilities.

31 December 2021

Facility	Carrying value of receivable \$'000	Provider	Maturity date	Weighted average interest rate	Facility Limit \$'000	Facility drawn \$'000
		NAB	Dec 2024		400,000	112,588
Afterpay AU	822,645	Citi	Dec 2024	0.44%	400,000	84,068
		Citi	May 2024		413,166	68,861
Afterpay US		Goldman				
	943,368	Sachs	Dec 2023	0.79%	413,166	68,861
		JP Morgan	Dec 2023		413,166	—
Afterpay NZ	107,132	BNZ	Jun 2023	1.79%	94,931	85,704
		NAB	Feb 2023		93,041	46,529
Clearpay UK	191,766	Citi	Feb 2023	1.63%	232,601	46,529
Total					2,460,071	513,140
Accrued interest						1,022
Capitalised borrowing costs						(6,554)
Total Secured interest bearing borrowings						507,608

30 June 2021

Facility	Carrying value of receivable \$'000	Provider	Maturity date	Weighted average interest rate	Facility Limit \$'000	Facility drawn \$'000
		NAB	Dec 2023		300,000	—
Afterpay AU	595,912	Citi	Dec 2023	0.09%	200,000	—
		Citi	May 2024		266,454	—
Afterpay US		Goldman				
	664,154	Sachs	Dec 2022	1.69%	266,454	—
Afterpay NZ	66,816	BNZ	Jun 2023	1.64%	93,119	32,591
		NAB	Feb 2023		92,166	—
Clearpay UK	114,830	Citi	Feb 2023	nil	230,415	—
Total					1,448,606	32,591
Accrued interest						949
Capitalised borrowing costs						(210)
Total Secured interest bearing borrowings						33,330

Matrix Convertible Notes

On January 19, 2018, Afterpay US, Inc. issued two convertible notes to Matrix Partners X L.P and Weston & Co X LLC (Matrix Convertible Notes). The Matrix Convertible Notes carried a fixed interest rate of 6.0% for a seven year maximum term and could be converted into shares in Afterpay Limited (APT shares) in certain circumstances (subject to a cap) between five and seven years from the date of issue of the notes (being January 19, 2018).

On December 20, 2021, Afterpay entered into an agreement with the noteholders to fully extinguish the remaining 65% of the Matrix Convertible Notes for the issuance of 6,500,000 shares in Afterpay Limited, based on the valuation of Afterpay US, Inc determined in accordance with the Valuation Principles established within the Matrix Convertible Notes. The impact has been recognised directly in equity (see Note 10 for further details).

This follows the FY21 Matrix Transaction which resulted in the extinguishment of 35% of the Matrix Convertible Notes for \$373.3 million in cash during the year ended June 30, 2021. As at December 31, 2021, the Matrix Convertible Notes have been fully extinguished.

SGX Convertible Notes

On March 12, 2021, Afterpay Limited completed the settlement of \$1,500.0 million zero coupon convertible notes (SGX Convertible Notes). The SGX Convertible Notes are interest free and have a maximum term of five years. They can be converted into APT shares in certain circumstances (including a change of control of Afterpay) before the maturity date of March 12, 2026, with conversion at the noteholder's election. On a change of control of Afterpay, the noteholders are entitled to either elect to have their SGX Convertible Notes redeemed for their face value (\$1,500.0 million); or convert their SGX Convertible Notes to APT shares based on a formula which depends on the date the change of control occurs.

A change of control is deemed to have occurred on December 14, 2021 when the shareholders of Afterpay approved the Block transaction, and the conversion price based on this date was \$141.00. As a result, the liability recorded at December 31, 2021 represents the present value of the notes that were expected to be fully redeemed for cash. The change in the value of the liability from June 30, 2021 has been recorded within finance costs in the Consolidated Statement of Comprehensive Income.

In January 2022, \$1.0 million in SGX Convertible Notes were converted into APT shares by note holders and the \$1,499.0 million balance of the SGX Convertible Notes that remained outstanding was redeemed on March 4, 2022.

6. Other financial liabilities

As at	31 December 2021 \$'000	30 June 2021 \$'000
Clearpay Call Option	136,967	99,873
Pagantis Convertible Note	60,496	66,775
Other	432	—
Total other financial liabilities	197,895	166,648
Total Current	197,895	—
Total Non-Current	—	166,648
Total other financial liabilities	197,895	166,648

Clearpay Call Option

As part of the acquisition of 90% of the issued shares in Clearpay Finance Limited (Clearpay) from ThinkSmart Limited (ThinkSmart) in August 2018, Afterpay was granted a call option to acquire the remaining Clearpay shares held directly by ThinkSmart, which is exercisable any time after August 23, 2023 (Clearpay Call Option). If the Group does not exercise its call option within that period, then ThinkSmart has a put option to sell the remaining shares it holds in Clearpay to the Group.

Afterpay had the right to exercise the call option earlier than August 23, 2023 in the event of a change of control of either Afterpay or ThinkSmart. Subsequent to the change of control of Afterpay deemed to have occurred on December 17, 2021 (see Note 12), Afterpay reached an agreement with ThinkSmart for Afterpay to acquire the remaining 6.5% interest in Clearpay held by ThinkSmart in exchange for 1,650,000 fully paid ordinary APT shares (ThinkSmart Transaction).

The parties entered into a share purchase agreement to give effect to this agreement (ThinkSmart SPA) and at December 31, 2021, the ThinkSmart transaction remained subject to the approval of ThinkSmart shareholders. As a result, the valuation of Afterpay's liability for the Clearpay Call Option was recorded by multiplying the agreed 1,650,000 shares by the closing APT share price on December 31, 2021 of \$83.01. The ThinkSmart Transaction was approved by ThinkSmart shareholders in January 2022 and the Clearpay Call Option was subsequently settled. See Note 12 for further details.

Pagantis Convertible Note

On March 9, 2021 (the Pagantis Completion Date), the Group acquired 100% of the issued shares and voting rights in Pagantis SAU and PMT Technology SLA (collectively, Pagantis) from NBQ Corporate SLU (NBQ). Pursuant to the Share Purchase Agreement (SPA), the Group has issued a convertible note (the Pagantis Convertible Note) to NBQ or its permitted assignees (the Pagantis noteholders) with a face value of €40.3 million (€45.0 million less agreed SPA adjustments). The Pagantis Convertible Note will be used to settle the Pagantis Deferred Consideration and the Pagantis Contingent Consideration that will be paid in three (or, in certain circumstances, three-and-a-half) years subsequent to the Pagantis Completion Date. Conversion and payment may also be accelerated, at Afterpay's election, if Afterpay is subject to a change of control pursuant to the Pagantis Convertible Note terms.

The face value of the Pagantis Convertible Note represents the Pagantis Deferred Consideration of €40.3 million and will be settled in cash. The remaining value of the Pagantis Convertible Note relates to the Pagantis Contingent Consideration, which is dependent on the future Equity Value of Pagantis at the settlement date. Afterpay has commenced discussions with the applicable counterparty in relation to the early settlement of the Pagantis Convertible Note, but no agreement has yet been reached as to the consideration to be paid based upon the underlying agreement. Now that Afterpay is no longer listed on the ASX, the Pagantis Convertible Note can only be settled in cash.

Significant accounting judgements, estimates and assumptions

The Clearpay Call Option and Pagantis Contingent Consideration are recorded at fair value and the valuations are re-assessed at each reporting period. Because the valuations are determined using cash flow and other inputs that are not based on observable market data, they are considered to be Level 3 within the fair value hierarchy as per IFRS 13 *Fair Value Measurement*.

Pagantis Contingent Consideration

The valuation of the Pagantis Contingent Consideration uses the valuation principles outlined in the Share Purchase Agreement and cash flow projections based on operating budgets which reflect management's view of the expected long-term growth profile of the businesses.

The determination of cash flows over the life of a business requires management judgment in assessing the future number of merchant acquisitions, customer usage, potential price changes as well as any changes to the costs of the product and of other operating costs incurred by the business.

The valuation is then derived by discounting the cash flow projections to present value using discount rates that reflect current market conditions, external analyst views, industry benchmarks, and, where available, the underlying businesses cost of debt and/or equity.

Clearpay Call Option

The valuation of the Clearpay Call Option at 31 December 2021 was based on both an observable input (the APT share price) and an unobservable input (the number of shares issued, which was subject to Thinksmart shareholder approval). At 31 December 2021, the probability of the shareholders not approving the proposed 1,650,000 shares was considered remote.

Fair value measurement

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The following table summarises the levels of the fair value hierarchy for financial liabilities held at fair value:

As at 31 December 2021	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Clearpay Call Option	—	—	136,967	136,967
Pagantis Contingent Consideration	—	—	—	—
Total financial liabilities	—	—	136,967	136,967

As at 30 June 2021	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Clearpay Call Option	—	—	99,873	99,873
Pagantis Contingent Consideration	—	—	6,398	6,398
Total financial liabilities	—	—	106,271	106,271

The movements in Level 3 financial liabilities measured at fair value is as follows:

As at	31 December 2021 \$'000	30 June 2021 \$'000
Opening balance	106,271	3,038
Additions	—	6,317
Net loss on financial liabilities at fair value recognised in the Consolidated Statement of Comprehensive Income	30,796	96,835
Foreign exchange (gain)/loss	(100)	81
Closing balance	136,967	106,271

The most significant inputs into the valuations of Level 3 financial liabilities are as follows:

As at	31 December 2021 Pagantis Contingent Consideration	30 June 2021 Clearpay Call Option	Pagantis Contingent Consideration
Discount rate	5%	10.25%	18.30%
GMV exit multiple	0.80x	n/a	n/a
Revenue exit multiple	n/a	35.4x	n/a
Volatility	n/a	n/a	60%

A 1% increase or decrease to the discount rate or a 1.0x increase or decrease to the exit multiple would not have a material impact on the fair value of the recognised liability (all other variables being held constant). The probability of a change to the number of shares issued to settle the Clearpay Call Option was considered remote and 1,650,000 shares were issued in January 2022 (see Note 12).

7. Issued capital

As at	31 December 2021 \$'000	30 June 2021 \$'000
Issued and fully paid	2,784,564	2,204,450

Movement in ordinary shares on issue

	Note	No.'000	\$'000
At 1 July 2021		289,331	2,204,450
Issue of ordinary shares on conversion of Matrix Convertible Notes	5	6,500	545,285
Share options, RSUs and loan shares exercised		1,440	34,829
At 31 December 2021 ¹		297,271	2,784,564

- The total number of ordinary shares on issue excludes 0.2 million loan shares (30 June 2021: 0.3 million).

8. Investments

As at	31 December 2021 \$'000	30 June 2021 \$'000
Touch Ventures Limited	46,778	23,578
Postpay Technology Limited	6,886	—
Total investments	53,664	23,578

Touch Ventures Limited

Touch Ventures Limited (TVL) (formerly AP Ventures Limited or APV) is an Australian listed company whose principal activity is the identification and assessment of potential investment opportunities including, but not limited to opportunities that are referred by Afterpay. TVL listed on the ASX in September 2021.

Afterpay owns 24.3% of the common shares of TVL (June 30, 2021: 32.0%) and is entitled to 24.3% of the voting rights (June 30, 2021: 21.8%). Afterpay has determined it has significant influence, but not control over TVL. Afterpay's investment is measured using the equity method described within IAS 28 *Investments in Associates and Joint Ventures*. TVL is not considered a material associate.

As at	31 December 2021 \$'000	30 June 2021 \$'000
Investment in associate		
Opening balance	23,578	5,166
Contributions to associate	10,000	15,000
Share of gain/(loss) of associate	6,049	(2,271)
Gain on dilution of shareholding in associate	7,151	5,683
Closing balance	46,778	23,578

9. Business combinations

Pagantis

On 9 March 2021 (the Pagantis Completion Date), the Group acquired 100% of the issued shares and voting rights in Pagantis SAU and PMT Technology SLA (collectively, Pagantis) from NBQ Corporate SLU (NBQ). The acquisition of Pagantis met the recognition criteria for consolidation from the Pagantis Completion Date.

NBQ will receive a minimum €45.3 million in consideration, paid or payable as follows:

- Upfront consideration - €5 million in cash paid at completion;
- Deferred consideration - €40.3 million payable in cash (Pagantis Deferred Consideration); and
- Contingent consideration - if the equity value of Pagantis at the time of settlement exceeds €51.6 million, any excess is calculated using a sliding scale payable (Pagantis Contingent Consideration).

Both the deferred consideration and the contingent consideration will be settled in cash with the Pagantis Convertible Note (see Note 6) up to 3.5 years post completion.

The transaction resulted in the acquisition of net liabilities with a fair value of \$26,000 and goodwill of \$73.9 million. At the Pagantis Completion Date, the goodwill comprised the value of expected synergies arising from the acquisition, as well as the value attributed to the existing Pagantis workforce, which was not able to be separately recognised under the criteria established in IAS 38 *Intangible Assets* (IAS 38). The goodwill was allocated to the Clearpay EU CGU and is not deductible for income tax purposes.

Details of the purchase consideration and the fair values of the identifiable assets and liabilities of Pagantis as at the Pagantis Completion Date were as follows:

	Fair value recognised on acquisition \$'000
Assets	
Cash and cash equivalents	3,833
Receivables	10,845
Other current assets	1,120
Intangible assets	12,875
Other non-current assets	996
Total assets	29,669
Liabilities	
Trade and other payables	(15,014)
Other current liabilities	(1,265)
Lease liabilities	(793)
Deferred tax liabilities	(3,219)
Other non-current liabilities	(9,404)
Net assets acquired at fair value	(26)
Goodwill acquired on acquisition	73,947
Total identifiable net assets at fair value	73,921
Purchase consideration	
Cash consideration paid	7,837
Pagantis Deferred Consideration	59,767
Pagantis Contingent Consideration	6,317
Total purchase consideration	73,921

There have been no changes to the provisional identifiable assets and liabilities originally recognised during the year-ended 30 June 2021.

10. Share-based payment plans

During the half year ended December 31, 2021, the Group operated share-based payment plans across the following instruments:

- Awards over APT equity comprising of options and restricted stock units (RSUs) under the Group's Afterpay Equity Incentive Plan;
- Awards over APT equity comprising of options, loan shares and performance rights under the Group's legacy remuneration plan, the Afterpay Employee Incentive Plan (which was adopted prior to listing in July 2017);
- Equity in APT issued to participating employees in the Group's Employee Share Matching Plan which was launched in November 2020;
- Equity in Afterpay US, Inc. (a subsidiary of Afterpay Limited) under the Afterpay US, Inc. 2018 Equity Incentive Plan (US ESOP); and
- Equity in Clearpay Finance Limited (Clearpay) (a subsidiary of Afterpay Limited) under the Clearpay Finance Limited 2020 Share Option Plan (UK ESOP).

The impacts of the acquisition by Block (see Note 12) have not been reflected in the share-based payment plans of the Group for the half year ended 31 December 2021.

Significant accounting judgements, estimates and assumptions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using the Binomial Model. The fair value of options is determined in accordance with the fair market value of the shares available at the grant date.

The value of the US and UK businesses are a significant estimate used to determine the fair value of the options issued under the UK and US ESOPs and the fair value of the share-based payments component of the Matrix Convertible Notes. These fair values are determined by valuations conducted by independent valuers using cash flow projections based on operating budgets which reflect management's view of the expected long-term growth profile of the businesses. The determination of cash flows over the life of a business requires management judgment in assessing the future number of merchant acquisitions, customer usage, potential price changes as well as any changes to the costs of the product and of other operating costs incurred by the business. The valuations are then derived by discounting the cash flow projections to present value using discount rates that reflect current market conditions, external analyst views, industry benchmarks, and, where available, the underlying businesses cost of debt and/or equity.

Some inputs to the Binomial Model require the application of judgment. The fair value of options granted during year were estimated on the grant date using the assumptions set out below:

	<u>H1 FY22</u>	<u>FY21</u>	<u>H1 FY22</u>	<u>FY21</u>	<u>H1 FY22</u>	<u>FY21</u>
	<u>APT ESOP</u>		<u>US ESOP</u>		<u>UK ESOP</u>	
Expected volatility	60-80%	60-80%	N/A	N/A	N/A	60%
Risk-free interest rate	0.40%	0.40%	N/A	N/A	N/A	0.29%
Expected life of award (years)	4	3	N/A	N/A	N/A	3
Dividend yield	0%	0%	N/A	N/A	N/A	0%
Weighted average fair value	\$106.96	\$ 51.91	N/A	N/A	N/A	\$0.17

The expected volatility and life of share options are based on historical data and current expectations and are not necessarily indicative of actual outcomes.

Awards over APT equity

	H1 FY22		FY21		H1 FY22		FY21		H1 FY22	FY21
	Share options				Loan shares				Rights ¹ & RSUs	
	No.	WAEP	No.	WAEP	No.	WAEP	No.	WAEP	No.	No.
	'000	\$	'000	\$	'000	\$	'000	\$	'000	'000
Outstanding at the beginning of the period	3,275	21.59	9,391	10.28	292	4.99	419	4.50	1,172	998
Granted during the period	—	—	85	97.95	—	—	—	—	642	774
Forfeited during the period	(71)	19.05	(438)	18.37	—	—	—	—	(99)	(213)
Exercised during the period	(1,165)	12.10	(5,763)	4.31	(104)	3.38	(127)	3.38	(171)	(387)
Outstanding at the end of the period	2,039	27.11	3,275	21.59	188	5.89	292	4.99	1,544	1,172
Exercisable at the end of the period	943	17.81	1,660	13.46	153	5.89	222	4.71	—	—

1. Granted during the year includes 3,852 share rights that were awarded under the Afterpay Share Matching Plan (FY20: 3,852).

Upon completion of the acquisition of Afterpay by Block (see Note 12), awards over APT equity granted before August 2, 2021 vested immediately on a 'pro-rata basis' based on the proportion of the original vesting period that has elapsed at the acquisition date of January 31, 2022 (measured based on the number of completed months). Any unvested awards remaining were forfeited and, on the acquisition date, Block granted Block awards of comparable form and value to the forfeited Afterpay awards. These Block replacement awards will generally vest on the same vesting schedule as the original Afterpay awards (subject to the employee's continued employment through the applicable vesting date), except that, for administrative convenience, certain Block replacement awards will have vesting dates that align with the vesting dates of other equity awards granted to Block employees.

The Afterpay Board elected that all vested Afterpay share options were automatically exercised prior to the Record Date of January 21, 2022.

US ESOP

	H1 FY22		FY21	
	Share options			
	No.	WAEP ¹	No.	WAEP ¹
	'000	\$	'000	\$
Outstanding at the beginning of the period	3,377	0.45	5,764	0.42
Granted during the period	—	—	—	—
Forfeited during the period	(8)	2.49	(80)	0.36
Exercised during the period	(1,816)	0.39	(2,307)	0.39
Outstanding at the end of the period ²	1,553	0.44	3,377	0.45
Exercisable at the end of the period	698	0.61	319	0.59

1. The exercise price for options granted is set on a periodic basis by reference to a third-party valuation of Afterpay US, Inc. which is conducted for US tax purposes.
2. This number includes options that have been exercised early but remain subject to vesting and a re-purchase right by Afterpay US, Inc. (Restricted US Shares)

Upon completion of the acquisition of Afterpay by Block (see Note 12):

- Unvested US Options or Restricted US Shares vested at the acquisition date on a 'pro-rata basis' based on the proportion of the original vesting period that had elapsed at the acquisition date (measured based on the number of completed months). Any unvested US Options or Restricted US Shares which remained outstanding were forfeited and replaced with Block Inc.'s Options or Restricted Block Stock of comparable value to the forfeited US Options or Restricted US Shares (as applicable).

- Vested US Options and Restricted US Shares (including any US Options or Restricted Shares that vested on a pro-rata basis, as described above), were canceled and converted into a right to receive Block Class A Shares. The number of Block Class A Shares received was determined by multiplying the aggregate value of vested US Options or Restricted US Shares (as applicable) by the Afterpay US Exchange Ratio (which was equal to the ratio of the fair market value of an Afterpay US Inc. share over the value of a Block Class A Share).

The number of Block Options or Restricted Block Stock granted in respect of forfeited US Options or Restricted US Shares (as applicable) was determined by multiplying the number of shares subject to the forfeited US Option or Restricted US Shares by the Afterpay US Exchange Ratio (which was equal to the ratio of the fair market value of an Afterpay US share, as determined by the settlement of the Matrix Convertible Notes (see Note 5)), rounded down to the nearest share in the case of US Options and up to the nearest share in the case of Restricted US Shares. The exercise price for Block Options was determined by dividing the exercise price of the forfeited US Option by the Afterpay US Exchange Ratio and rounding up to the nearest whole cent.

Matrix Convertible Notes

The settlement of the Matrix Convertible Notes (see Note 5) was determined to be a modification of a share-based payment arrangement and the remaining share-based payment expense relating to the original award was accelerated. The fair value of the original award was determined with reference to the equity value of Afterpay US, Inc. at the modification date and the impact has been recorded directly in equity.

UK ESOP

	H1 FY22		FY21	
	Share options			
	No.	WAEP	No.	WAEP
	'000	\$	'000	\$
Outstanding at the beginning of the period	1,820	0.17	—	—
Granted during the period	—	—	1,860	0.18
Forfeited during the period	—	—	(40)	0.16
Exercised during the period	—	—	—	—
Outstanding at the end of the period	1,820	0.17	1,820	0.17
Exercisable at the end of the period	1,340	0.17	1,050	0.17

UK Options continued to vest in the ordinary course, subject to the original vesting schedule. Subsequent to the settlement of the Clearpay Call Option (see Note 12), vested UK Options were exercised and replaced with APT shares. Further details are included in Note 12.

Upon completion of the acquisition of Afterpay by Block Inc. (see Note 12), unvested UK Options were forfeited and replaced with Block Options of comparable value to forfeited UK Options. The number of Block Options granted in respect of forfeited UK Options was determined by multiplying the number of shares subject to the forfeited UK Option by the Afterpay UK Exchange Ratio (which was equal to the ratio of the fair market value of a Clearpay share, as determined by the settlement of the Clearpay Call Option (see Note 6), over the value of a Block Class A Share) rounded down to the nearest whole share. The exercise price was determined by dividing the exercise price of the forfeited UK Option by the Afterpay UK Exchange Ratio and rounding up to the nearest whole cent.

11. Commitments and contingencies

Contingent liabilities and contingent assets

Details of contingent liabilities and contingent assets where the probability of future payments is not considered remote are set out below as well as details of contingent liabilities, which although considered remote, the Company considers should be disclosed as they are not disclosed elsewhere in the notes to the financial statements.

(a) Legal commitments and claims

Claims can be raised by customers and suppliers against the Group in the ordinary course of business. To the extent that a future outflow is probable and able to be reliably estimated, a liability has been recorded.

(b) Bank guarantees

The Group had entered into bank guarantee arrangements totalling \$6.1 million relating to the Group's normal business operations (June 30, 2021: \$6.0 million).

(c) Lease commitments

In December 2021, Afterpay entered a lease agreement for a commercial office in Sydney, Australia. The lease agreement is subject to certain conditions, including the finalization of the development of the Brewery Yard building, which is expected to be completed by 2023. As a result, no lease liability or right of use asset has been recognised as of December 31, 2021. The term of the arrangement is for five years, with an extension option, and gross lease payments are expected to total \$17.3 million.

(d) Funding commitment

In December 2021, a financial institution committed to underwrite the subscription for the settlement of the SGX Convertible notes (see Note 5) for an aggregate amount of up to \$1,500.0 million. This commitment was canceled on January 31, 2022 upon completion of the Block acquisition (Note 12).

12. Events occurring after the reporting period

With the exception of the items listed below, the Company is not aware of any other matters or circumstances that have arisen since December 31, 2021 that have significantly affected or may significantly affect the operations of the consolidated entity in subsequent financial years, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

(a) Acquisition by Block, Inc. (formerly Square, Inc.)

On January 31, 2022 (February 1, 2022 Australian Eastern Daylight Time) (the acquisition date), Block completed the acquisition of Afterpay. In connection with the acquisition, Block issued 113,387,895 shares of Block's Class A common stock with an aggregate fair value of \$19.6 billion (US\$13.9 billion) based on the closing price of Block's Class A common stock on the acquisition date.

The acquisition has resulted in a number of modifications to Afterpay's existing share-based payment arrangements, which are explained in more detail in Note 10.

Upon acquisition, Afterpay ceased to be a listed company on the ASX.

(b) Settlement of Clearpay Call Option

In January 2022, ThinkSmart shareholders approved Afterpay's offer to acquire the 3,900,000 fully paid B ordinary shares in the capital of Clearpay held directly by ThinkSmart in exchange for 1,650,000 fully paid ordinary APT shares (ThinkSmart Transaction).

(c) Exchange of vested US and UK ESOP awards

Subject to the settlement of the Matrix Convertible Note (Note 5) and the Clearpay Call Option (Note 6), Afterpay:

- exchanged all vested shares in the US ESOP. This resulted in 2,227,976 shares in Afterpay US, Inc. being exchanged for 2,018,749 APT shares. The exchange was determined to be a modification of a share-based payment arrangement. The fair value of the original award was determined with reference to the equity value of Afterpay US, Inc. at the modification date and the impact will be recognised directly in equity.
- exchanged all options in the UK ESOP that were vested on the date the settlement of the Clearpay Call Option was agreed on a 'pro-rata basis' based on the proportion of the then current vesting period that had elapsed. This resulted in 1,693,162 options in Clearpay UK being exchanged for 397,568 APT shares (net of exercise prices and tax). The exchange was determined to be a modification of a share-based payment arrangement. The fair value of the original award will be determined with reference to the equity value of Clearpay UK at the modification date and the impact will be recognised directly in equity.

(d) Settlement of SGX Convertible Notes

The SGX Convertible Notes (Note 5) with an outstanding principal amount of \$1,499.0 million were fully redeemed by the noteholders on March 4, 2022.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined financial information presents the combination of the historical consolidated financial statements of Block, Inc. and its subsidiaries (“Block”) and the historical consolidated financial statements of Afterpay Limited and its subsidiaries (“Afterpay”) after giving effect to Block’s acquisition of all ordinary shares of Afterpay pursuant to a court-approved scheme of arrangement under Part 5.1 of Australia’s Corporations Act 2001 (Cth) (the “Transaction”), as further described in Note 1, *Description of the transaction*.

The unaudited pro forma condensed combined balance sheet assumes the Transaction was completed on December 31, 2021 and combines Block’s audited condensed consolidated balance sheet as of December 31, 2021 with Afterpay’s unaudited consolidated balance sheet as of December 31, 2021.

The unaudited pro forma condensed combined statement of operations for the fiscal year ended December 31, 2021 combines the historical consolidated statement of operations of Block and Afterpay and assumes the Transaction was completed on January 1, 2021, the first day of Block’s fiscal year 2021.

The unaudited pro forma condensed combined financial statements were prepared in accordance with Article 11 of Regulation S-X as amended by the final rule, Release No. 33-10786 “*Amendments to Financial Disclosures about Acquired and Disposed Businesses*,” using the assumptions set forth in the notes to the unaudited pro forma condensed combined financial statements. The unaudited pro forma condensed combined financial statements have been adjusted to include Transaction accounting adjustments, which reflect the application of the accounting required by U.S. GAAP, including the effects of the Transaction as further described in Note 1.

The pro forma adjustments are based upon currently available information and certain assumptions that Block’s management believes are reasonable. Assumptions underlying the pro forma adjustments are described in the accompanying notes, which should be read in conjunction with the unaudited pro forma condensed combined financial information. Additionally, Block conducted an initial review of the accounting policies of Afterpay, which comply with International Financial Reporting Standards (“IFRS”) to determine material differences in accounting policies or presentation between Block and Afterpay that may require recasting or reclassification to conform to Block’s accounting policies and presentations. The assessment of differences between IFRS and U.S. GAAP is based on Block management’s best estimates which remain subject to change as additional information becomes available.

The unaudited pro forma condensed combined financial information was based on and should be read in conjunction with Block’s and Afterpay’s historical financial statements referenced below:

- Block’s audited consolidated financial statements and related notes thereto as of and for the year ended December 31, 2021, contained in its Annual Report on Form 10-K for the year ended December 31, 2021; and
- Afterpay’s audited consolidated financial statements and related notes thereto as of and for the year ended June 30, 2021 included as Exhibit 99.1 to this Amendment to the Current Report on Form 8-K/A and Afterpay’s unaudited consolidated financial statements as of December 31, 2021 and for the six months ended December 31, 2021 and December 31, 2020 included as Exhibit 99.2 to this Amendment to the Current Report on Form 8-K/A.

The unaudited pro forma condensed combined financial information is presented for informational purposes only and is not intended to present or be indicative of what the results of operations or financial position would have been had the events actually occurred on the dates indicated, nor is it meant to be indicative of future results of operations or financial position for any future period or as of any future date. The unaudited pro forma condensed combined financial information does not give effect to the potential impact of current financial conditions, or any anticipated revenue enhancements, cost savings or operating synergies that may result from the Transaction.

BLOCK, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
AS OF DECEMBER 31, 2021
(in thousands, except share and per share data)

	Historical BLOCK, INC. (USD)	Historical Afterpay Limited U.S. GAAP (USD)	Transaction Accounting Adjustments (USD)	Note(s)	Pro Forma Combined
Assets					
Current assets:					
Cash and cash equivalents	\$ 4,443,669	\$ 515,905	\$ (8,693)	7(G)	\$ 4,950,881
Investments in short-term debt securities	869,283	—	—		869,283
Settlements receivable	1,171,612	—	—		1,171,612
Customer funds	2,830,995	—	—		2,830,995
Loans held for sale	517,940	—	—		517,940
Consumer receivables, net	—	1,563,252	—		1,563,252
Other current assets	687,429	101,522	—		788,951
Total current assets	<u>\$10,520,928</u>	<u>\$2,180,679</u>	<u>\$ (8,693)</u>		<u>\$12,692,914</u>
Property and equipment, net	282,140	6,846	—		288,986
Goodwill	519,276	81,608	11,567,073	7(B)	12,167,957
Acquired intangible assets, net	257,049	104,245	1,920,755	7(C)	2,282,049
Investments in long-term debt securities	1,526,430	—	—		1,526,430
Operating lease right-of-use asset	449,406	32,899	—		482,305
Other non-current assets	370,535	301,706	(256,921)	7(D)	415,320
Total assets	<u>\$13,925,764</u>	<u>\$2,707,983</u>	<u>\$13,222,214</u>		<u>\$29,855,961</u>
Liabilities and stockholders' equity					
Current liabilities:					
Accounts payable	\$ —	\$ 2,705	\$ —		\$ 2,705
Customers payable	3,979,624	100,169	—		4,079,793
Settlements payable	254,611	—	—		254,611
Accrued expenses and other current liabilities	639,309	343,830	(82,299)	7(F)	900,840
Operating lease liabilities, current	64,027	17,913	—		81,940
PPP Liquidity Facility advances	497,533	—	—		497,533
Current portion of long-term debt	—	1,085,022	4,409	7(A)	1,089,431
Total current liabilities	<u>\$ 5,435,104</u>	<u>\$1,549,639</u>	<u>\$ (77,890)</u>		<u>\$ 6,906,853</u>
Long-term debt	4,559,208	368,890	—		4,928,098
Operating lease liabilities, non-current	395,017	11,681	—		406,698
Deferred tax liability	14,065	—	245,177	7(D)	259,242
Other non-current liabilities	208,781	6,521	36,382	7(D)	251,684
Total liabilities	<u>\$10,612,175</u>	<u>\$1,936,731</u>	<u>\$ 203,669</u>		<u>\$12,752,575</u>
Commitments and contingencies (Note 18)					
Stockholders' equity:					
Preferred stock, \$0.0000001 par value: 100,000,000 shares authorized at December 31, 2021. None issued and outstanding at December 31, 2021.	—	—	—		—
Class A common stock, \$0.0000001 par value: 1,000,000,000 shares authorized at December 31, 2021; 403,237,209 issued and outstanding at December 31, 2021.	—	—	—		—
Class B common stock, \$0.0000001 par value: 500,000,000 shares authorized at December 31, 2021; 61,706,578 issued and outstanding at December 31, 2021.	—	—	—		—
Additional paid-in capital	3,317,255	1,090,903	12,801,216	7(E)	17,209,374
Retained earnings (accumulated deficit)	(27,965)	(429,881)	327,559	7(E)	(130,287)
Accumulated other comprehensive income	(16,435)	109,609	(109,609)	7(E)	(16,435)
Total stockholders' equity attributable to common stockholders	<u>\$ 3,272,855</u>	<u>\$ 770,631</u>	<u>\$13,019,166</u>		<u>\$17,062,652</u>
Noncontrolling interests	40,734	621	(621)	7(E)	40,734
Total stockholders' equity	<u>\$ 3,313,589</u>	<u>\$ 771,252</u>	<u>\$13,018,545</u>		<u>\$17,103,386</u>
Total liabilities and shareholders' equity	<u>\$13,925,764</u>	<u>\$2,707,983</u>	<u>\$13,222,214</u>		<u>\$29,855,961</u>

See accompanying "Notes to the Unaudited Pro Forma Condensed Combined Financial Information"

BLOCK, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2021
(in thousands, except per share data)

	Historical BLOCK, INC. (USD)	Historical Afterpay Limited U.S. GAAP (USD)	Transaction Accounting Adjustments (USD)	Note(s)	Pro Forma Combined
Revenue:					
Transaction-based revenue	\$ 4,793,146	\$ —	\$ —		\$ 4,793,146
Subscription and services-based revenue	2,709,731	832,874	—		3,542,605
Hardware revenue	145,679	—	—		145,679
Bitcoin revenue	10,012,647	—	—		10,012,647
Total net revenue	<u>\$17,661,203</u>	<u>\$ 832,874</u>	<u>\$ —</u>		<u>\$18,494,077</u>
Cost of revenue:					
Transaction-based costs	2,729,442	—	—		2,729,442
Subscription and services-based costs	495,761	207,947	—		703,708
Hardware costs	221,185	—	—		221,185
Bitcoin costs	9,794,992	—	—		9,794,992
Amortization of acquired technology	—	23,705	24,095	8(A)	47,800
Total cost of revenue	<u>\$13,241,380</u>	<u>\$ 231,652</u>	<u>\$ 24,095</u>		<u>\$13,497,127</u>
Gross profit	<u>\$ 4,419,823</u>	<u>\$ 601,222</u>	<u>\$ (24,095)</u>		<u>\$ 4,996,950</u>
Operating expenses:					
Product development	1,399,079	80,943	7,865	8(B)	1,487,887
Sales and marketing	1,617,189	252,792	6,471	8(B)	1,876,452
General and administrative	983,326	263,299	90,776	8(B), 8(F), 8(G), 8(J)	1,337,401
Transaction and loan losses	187,991	225,215	—		413,206
Bitcoin impairment losses	71,126	—	—		71,126
Amortization of acquired customer assets	—	3,069	134,130	8(A)	137,199
Total operating expenses	<u>\$ 4,258,711</u>	<u>\$ 825,318</u>	<u>\$ 239,242</u>		<u>\$ 5,323,271</u>
Operating income (loss)	<u>\$ 161,112</u>	<u>\$(224,096)</u>	<u>\$ (263,337)</u>		<u>\$ (326,321)</u>
Interest expense, net	33,124	—	—		33,124
Other expense (income), net	(29,474)	241,823	(78,875)	8(C), 8(D), 8(H)	133,474
Income (loss) before income tax	<u>\$ 157,462</u>	<u>\$(465,919)</u>	<u>\$ (184,462)</u>		<u>\$ (492,919)</u>
Provision (benefit) for income taxes	(1,364)	(146,002)	30,013	8(E)	(117,353)
Net income (loss)	<u>\$ 158,826</u>	<u>\$(319,917)</u>	<u>\$ (214,475)</u>		<u>\$ (375,566)</u>
Net income (loss) attributable to noncontrolling interests	<u>\$ (7,458)</u>	<u>\$ (754)</u>	<u>\$ 754</u>	8(I)	<u>\$ (7,458)</u>
Net income (loss) attributable to common stockholders	<u>\$ 166,284</u>	<u>\$(319,163)</u>	<u>\$ (215,229)</u>		<u>\$ (368,108)</u>
Net income (loss) per share:					
Basic	\$ 0.36				\$ (0.64)
Diluted	\$ 0.33				\$ (0.64)
Weighted-average shares used to compute net income (loss) per share:					
Basic	458,432				572,049
Diluted	501,779				572,049

See accompanying "Notes to the Unaudited Pro Forma Condensed Combined Financial Information"

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

NOTE 1 – DESCRIPTION OF THE TRANSACTION

On January 31, 2022 (Pacific Standard Time) / February 1, 2022 (Australian Eastern Time), Block completed the Transaction, pursuant to the terms and conditions set forth in the Scheme Implementation Deed, dated as of August 1, 2021 (Pacific Daylight Time) / August 2, 2021 (Australian Eastern Standard Time) (as amended by the Amending Deed, dated as of December 6, 2021 (Pacific Standard Time) / December 7, 2021 (Australian Eastern Daylight Time)), by and among Block, Afterpay and Lanai (AU) 2 Pty Ltd, an Australian proprietary company limited by shares and an indirect wholly owned subsidiary of Block. As a result of the Transaction, Afterpay became an indirect wholly-owned subsidiary of Block. In connection with the closing of the Transaction, Block issued shares of Block Class A common stock in the following amounts: (a) 113,387,895 shares, which includes 2,437,500 shares in connection with the settlement of the two convertible promissory notes issued to Matrix Partners X L.P. and Weston & Co. X LLC (collectively, the “Matrix Convertible Note”) attributable to the pre-combination and post-combination service periods, and (b) 229,457 shares in connection with the settlement of vested Afterpay US, Inc. 2018 Equity Incentive Plan Options (“US ESOP Options”). Refer to Note 6 for further details.

NOTE 2 – BASIS OF PRESENTATION

The unaudited pro forma condensed combined financial information was prepared in accordance with Article 11 of SEC Regulation S-X, as amended by the final rule, Release No. 33-10786 “Amendments to Financial Disclosures about Acquired and Disposed Businesses”. Block prepares its consolidated financial statements on the basis of a fiscal year ended December 31, 2021. The consolidated financial statements of Afterpay have historically been prepared on a basis of a fiscal year ended June 30. In accordance with applicable SEC rules, if the fiscal year end of an acquired entity differs from the acquirer’s fiscal year end by more than 93 days, the acquired entity’s income statement must be brought up within 93 days of the acquirer’s fiscal year end. Financial information for Afterpay for the year ended December 31, 2021, has been derived for purposes of the preparation of the unaudited pro forma condensed combined financial statements. The unaudited pro forma condensed combined statements of operations were prepared using:

- the historical audited consolidated statements of operations of Block for the year ended December 31, 2021;
- the historical unaudited consolidated statement of comprehensive income of Afterpay for the twelve months ended December 31, 2021, which has been derived by subtracting the financial data from the historical unaudited consolidated statement of comprehensive income for the six months ended December 31, 2020, from the financial data from the historical audited consolidated statement of comprehensive income for the fiscal year ended June 30, 2021, and adding the financial data from the historical unaudited consolidated statement of comprehensive income for the six months ended December 31, 2021.

Block accounted for the acquisition using the acquisition method of accounting, as prescribed in *Accounting Standards Codification 805, Business Combinations*, (“ASC 805”), under U.S. GAAP. Block is treated as the acquirer for accounting purposes. Block recorded the assets acquired, including identifiable intangible assets, and the liabilities assumed from Afterpay at their respective estimated fair values at the date of completion of the Transaction. Any excess of the purchase price over the net fair value of such assets and liabilities is recorded as goodwill.

The valuations of the assets acquired and liabilities assumed are preliminary and have not yet been finalized as of the date of this filing. The purchase price allocations are preliminary and subject to change, including the valuation of intangible assets, income taxes and goodwill, among other items. The final purchase price allocation may be materially different than the preliminary purchase consideration allocation presented in the unaudited pro forma combined financial information. Any changes in the fair values of the net assets or total purchase consideration as compared with the information shown in the unaudited pro forma condensed combined financial information may change the amount of the total purchase price allocated to goodwill and other assets and liabilities and may impact the combined company’s balance sheet and statement of income. As a result of the foregoing, the pro forma adjustments are preliminary and have been made solely for the purpose of providing unaudited pro forma condensed combined financial information.

NOTE 3 – CONFORMING ACCOUNTING POLICIES

During the preparation of the unaudited pro forma condensed combined financial information, Block’s management performed an initial review of the accounting policies of Afterpay to determine if differences in accounting policies require reclassification or adjustment. As a result of that preliminary review, Block’s management identified a difference in the presentation of direct loan origination costs. Afterpay recognizes such costs as Cost of sales as part of its historical accounting which differs from Block’s presentation under U.S. GAAP where such costs, if applicable, are included within the effective interest rate amortization and therefore as part of the effective interest rate net within revenue (i.e., Afterpay income). An adjustment was recorded to the unaudited pro forma condensed combined statement of operations to decrease Afterpay income by A\$44.2 million and reduce Cost of sales correspondingly by the same amount.

When Block’s management completes a final review of Afterpay’s accounting policies, additional differences may be identified that, when conformed, could have a material impact on the unaudited pro forma condensed combined financial information.

The following table reflects the impact of these adjustments on Afterpay’s consolidated statement of comprehensive income as presented in the unaudited pro forma condensed combined financial information for the twelve months ended December 31, 2021 (in Australian Dollars (“A\$” or “AUD”) thousands):

	Twelve Months Ended December 31, 2021		
	Afterpay Limited Historical (AUD)	Policy Alignment Adjustments (AUD)	Notes
<i>(in thousands)</i>			
Revenues:			
Afterpay income	A\$ 1,008,803	A\$ (44,152)	(a)
Pay Now revenue	11,570	—	
Other income	132,026	—	
Total income	A\$ 1,152,399	A\$ (44,152)	
Cost of sales	(320,853)	44,152	(a)
Gross profit	A\$ 831,546	A\$ —	
Depreciation and amortisation expenses	(48,626)	—	
Employment expenses	(200,313)	—	
Share-based payment expenses	(63,677)	—	
Receivables impairment expenses	(299,678)	—	
Net loss on financial liabilities at fair value	(62,831)	—	
Marketing expenses	(237,196)	—	
Other operating expenses	(280,907)	—	
Operating income/(loss)	A\$ (361,682)	A\$ —	
Share of profit (loss) of associate	4,336	—	
Gain on dilution of shareholding in associate	12,834	—	
Finance income	390	—	
Finance costs	(275,844)	—	
Loss before tax	A\$ (619,966)	A\$ —	
Income tax benefit/(expense)	194,275	—	
Loss for the year	A\$ (425,691)	A\$ —	

Notes:

- (a) Represents an adjustment to decrease Afterpay income and Cost of sales to align Afterpay’s presentation of direct loan origination costs with that of Block’s.

There were no accounting policy alignment adjustments identified for Afterpay's consolidated statement of financial position as presented in the unaudited pro forma condensed combined financial information as of December 31, 2021.

NOTE 4 – FOREIGN CURRENCY TRANSLATION AND U.S. GAAP CONVERSION

Block's management performed a preliminary analysis of Afterpay's historical financial information to identify differences between IFRS and U.S. GAAP. There were no material differences identified on Afterpay's consolidated statement of financial position or Afterpay's consolidated statement of comprehensive income as presented in the unaudited pro forma condensed combined financial information. Therefore, no corresponding IFRS to U.S. GAAP adjustments are made to the unaudited pro forma condensed combined financial information as of December 31, 2021.

Additionally, Afterpay's historical financial information and pro forma adjustments have been translated from its reporting currency of AUD to be presented in Block's reporting currency of USD using the following exchange rates:

	USD/AUD
Statement of operations – average exchange rate for the year ended December 31, 2021	0.7515
Balance sheet – spot rate at December 31, 2021	0.7267

	As of December 31, 2021	
	Afterpay Limited Historical (AUD)	Afterpay Limited Historical Translated (USD)
<i>(in thousands)</i>		
ASSETS		
Current assets		
Cash and cash equivalents	A\$ 816,504	\$ 593,372
Receivables	2,089,609	1,518,567
Other financial assets	43,029	31,270
Other current assets	42,965	31,224
Income tax receivable	7,553	5,489
Total current assets	A\$ 2,999,660	\$ 2,179,922
Non-Current Assets		
Property, plant and equipment	9,420	6,846
Right-of-use assets	45,271	32,899
Intangible assets	255,741	185,853
Deferred tax assets	340,272	247,284
Investments	53,664	38,999
Other non-current assets	14,286	10,382
Total Non-Current Assets	A\$ 718,654	\$ 522,263
TOTAL ASSETS	A\$ 3,718,314	\$ 2,702,185
LIABILITIES		
Current liabilities		
Trade and other payables	A\$ 403,010	\$ 292,877
Other liabilities	12,734	9,255
Lease liabilities	24,649	17,913
Borrowings	1,493,034	1,085,022
Other financial liabilities	197,895	143,815
Total current liabilities	A\$ 2,131,323	\$ 1,548,882
Non-Current Liabilities		
Other non-current liabilities	2,037	1,480
Lease liabilities	16,073	11,681
Borrowings	507,608	368,890
Total Non-Current Liabilities	A\$ 525,718	\$ 382,051
Total Liabilities	A\$ 2,657,041	\$ 1,930,933
NET ASSETS	A\$ 1,061,273	\$ 771,252
EQUITY		
Issued capital	A\$ 2,784,564	\$ 2,023,607
Accumulated losses	(591,532)	(429,881)
Reserves	(1,132,612)	(823,095)
Equity attributable to the owners of Afterpay Limited	A\$ 1,060,419	\$ 770,631
Noncontrolling interests	854	621
TOTAL EQUITY	A\$ 1,061,273	\$ 771,252
Total Liabilities and Equity	A\$ 3,718,314	\$ 2,702,185

The following table reflects the impact of these adjustments on Afterpay's consolidated statement of comprehensive income as presented in the unaudited pro forma condensed combined financial information for the twelve months ended December 31, 2021 (in thousands):

	Twelve Months Ended December 31, 2021	
	Afterpay Limited Historical Policy Alignment Adjusted (AUD) (Note 3)	Afterpay Limited Historical Policy Alignment Adjusted and Translated (USD)
<i>(in thousands)</i>		
Revenues:		
Afterpay income	A\$ 964,651	\$ 724,958
Pay Now revenue	11,570	8,695
Other income	132,026	99,221
Total income	A\$ 1,108,247	\$ 832,874
Cost of sales	(276,701)	(207,947)
Gross profit	A\$ 831,546	\$ 624,927
Depreciation and amortisation expenses	(48,626)	(36,544)
Employment expenses	(200,313)	(150,540)
Share-based payment expenses	(63,677)	(47,855)
Receivables impairment expenses	(299,678)	(225,215)
Net loss on financial liabilities at fair value	(62,831)	(47,219)
Marketing expenses	(237,196)	(178,259)
Other operating expenses	(280,907)	(211,108)
Operating income/(loss)	A\$ (361,682)	\$ (271,813)
Share of profit (loss) of associate	4,336	3,259
Gain on dilution of shareholding in associate	12,834	9,645
Finance income	390	293
Finance costs	(275,844)	(207,303)
Loss before tax	A\$ (619,966)	\$ (465,919)
Income tax benefit/(expense)	194,275	146,002
Loss for the year	A\$ (425,691)	\$ (319,917)

NOTE 5 – RECLASSIFICATIONS

Certain reclassification adjustments have been made to conform Afterpay's financial statement presentation to that of Block's financial statement as indicated in the tables below.

The reclassification adjustments to conform Afterpay's balance sheet presentation to that of Block's balance sheet have no material impact on net assets and are summarized below (in USD thousands):

(in thousands)	As of December 31, 2021			
	Afterpay Limited Historical Translated (USD) (Note 4)	Reclassification Adjustments (USD)	Notes	Historical Afterpay Limited U.S. GAAP (USD)
Assets				
Current assets:				
Cash and cash equivalents	\$ 593,372	\$ (77,467)	(a)	\$ 515,905
Consumer receivables, net	—	1,563,252		1,563,252
		77,467	(a)	
		1,485,785	(b)	
Receivables	1,518,567	(1,518,567)	(b)	—
Other financial assets	31,270	(31,270)	(c)	—
Other current assets	31,224	70,298		101,522
		32,782	(b)	
		31,270	(c)	
		757	(f)	
		5,489	(l)	
Income tax receivable	5,489	(5,489)	(l)	—
Total current assets	2,179,922	757		2,180,679
Property and equipment, net	6,846	—		6,846
Right-of-use assets	32,899	(32,899)	(e)	—
Goodwill	—	81,608	(d)	81,608
Intangible assets	185,853	(185,853)	(d)	—
Acquired intangible assets, net	—	104,245	(d)	104,245
Deferred tax asset	247,284	(247,284)	(r)	—
Investments	38,999	(38,999)	(k)	—
Operating lease right-of-use asset	—	32,899	(e)	32,899
Other non-current assets	10,382	291,324		301,706
		38,999	(k)	
		252,325	(r)	
Total assets	\$ 2,702,185	\$ 5,798		\$ 2,707,983
Liabilities and stockholders' equity				
Current liabilities:				
Trade and other payables	\$ 292,877	\$ (292,877)	(f)	\$ —
Accounts payable	—	2,705		2,705
		2,690	(f)	
		15	(g)	
Customers payable	—	100,169	(f)	100,169
Lease liabilities	17,913	(17,913)	(m)	—
Operating lease liabilities, current	—	17,913	(m)	17,913
Borrowings	1,085,022	(1,085,022)	(h)	—
Other liabilities	9,255	(9,255)	(g)	—
Accrued expenses and other current liabilities	—	343,830		343,830
		190,775	(f)	
		9,240	(g)	
		143,815	(j)	
Current portion of long-term debt	—	1,085,022	(h)	1,085,022
Other financial liabilities	143,815	(143,815)	(j)	—
Total current liabilities	1,548,882	757		1,549,639
Lease liabilities	11,681	(11,681)	(n)	—
Borrowings	368,890	(368,890)	(i)	—
Long-term debt	—	368,890	(i)	368,890
Operating lease liabilities, non-current	—	11,681	(n)	11,681
Other non-current liabilities	1,480	5,041	(r)	6,521
Total liabilities	\$ 1,930,933	\$ 5,798		\$ 1,936,731

Stockholders' equity:

Additional paid-in capital	\$ —	\$ 1,090,903		\$ 1,090,903
		2,023,607	(o)	
		(932,704)	(p)	
Issued capital	2,023,607	(2,023,607)	(o)	—
Accumulated other comprehensive income	—	109,609	(p)	109,609
Accumulated losses	(429,881)	429,881	(q)	—
Reserves	(823,095)	823,095	(p)	—
Retained earnings (accumulated deficit)	—	(429,881)	(q)	(429,881)
Equity attributable to Afterpay	\$ 770,631	\$ —		\$ 770,631
Non-controlling interest	621	—		621
Total stockholders' equity	\$ 771,252	\$ —		\$ 771,252
Total liabilities and shareholders' equity	\$ 2,702,185	\$ 5,798		\$ 2,707,983

Notes:

- (a) Represents a reclassification to Block's Consumer receivables, net from Afterpay's Cash and cash equivalents related to cash-in-transit.
- (b) Represents a reclassification to Block's Consumer receivables, net and Other current assets from Afterpay's Receivables. Reclassification to Block's Consumer receivables, net consists of Afterpay's receivables, late fees, provision for doubtful debt related to receivables and late fees, and deferred revenue balance historically included in Receivables. Reclassification to Block's Other current assets consists of Afterpay's accrued receivables, control receivables account, other financial assets, other financial assets controls account, provision for doubtful debts, and merchant receivables.
- (c) Represents a reclassification to Block's Other current assets from the current portion of Afterpay's Other financial assets.
- (d) Represents a reclassification to Block's Acquired intangible assets, net and Goodwill from Afterpay's Intangible assets. Reclassification to Block's Acquired intangible assets, net consists of Afterpay's intangible assets and M&A assets net of amortization historically included in Intangible assets. Reclassification to Block's Goodwill consists of Afterpay's goodwill historically included in Intangible assets.
- (e) Represents a reclassification to Block's Operating lease right-of-use asset from Afterpay's Right-of-use assets.
- (f) Represents a reclassification to Block's Accounts payable, Accrued expenses and other current liabilities, Customers payable, and Other current assets from Afterpay's Trade and other payables.
- (g) Represents a reclassification to Block's Accounts payable and Accrued expenses and other current liabilities from Afterpay's Other liabilities.
- (h) Represents a reclassification to Block's Current portion of long-term debt from the current portion of Afterpay's Borrowings.
- (i) Represents a reclassification to Block's Long-term debt from the non-current portion of Afterpay's Borrowings.
- (j) Represents a reclassification to Block's Accrued expenses and other current liabilities from the current portion of Afterpay's Other financial liabilities.
- (k) Represents a reclassification to Block's Other non-current assets from Afterpay's Investments.
- (l) Represents a reclassification to Block's Other current assets from Afterpay's Income tax receivable.
- (m) Represents a reclassification to Block's Operating lease liabilities, current from the current portion of Afterpay's Lease liabilities.
- (n) Represents a reclassification to Block's Operating lease liabilities, non-current from the non-current portion of Afterpay's Lease liabilities.
- (o) Represents a reclassification to Block's Additional paid-in capital from Afterpay's Issued capital.
- (p) Represents a reclassification to Block's Accumulated other comprehensive income and Additional paid-in capital from Afterpay's Reserves.
- (q) Represents a reclassification to Block's Retained earnings (accumulated deficit) from Afterpay's Accumulated losses.
- (r) Represents a reclassification to Block's Other non-current assets and Other non-current liabilities from Afterpay's Deferred tax assets. Reclassification to Block's Other non-current assets consists of Afterpay's deferred tax assets historically included in Deferred tax assets. Reclassification to Block's Other non-current liabilities consists of Afterpay's deferred tax liabilities historically included in Deferred tax assets.

The reclassification adjustments to conform Afterpay's statement of comprehensive income presentation to that of Block statements of operations have no impact on net loss and are summarized below (in USD thousands):

	Twelve Months Ended December 31, 2021			
	Afterpay Limited Historical Policy Alignment Adjusted and Translated (USD) (Note 4)	Reclassification Adjustments (USD)	Notes	Historical Afterpay Limited U.S. GAAP (USD)
<i>(in thousands)</i>				
Revenue:				
Afterpay income	\$ 724,958	\$ (724,958)	(a)	\$ —
Pay Now revenue	8,695	(8,695)	(b)	—
Other income	99,221	(99,221)	(c)	—
Subscription and services-based revenue	—	832,874		832,874
		724,958	(a)	
		8,695	(b)	
		99,221	(c)	
Total net revenue	\$ 832,874	\$ —		\$ 832,874
Cost of revenue:				
Cost of sales	207,947	(207,947)	(d)	—
Subscription and services-based costs	—	207,947	(d)	207,947
Amortization of acquired technology	—	23,705	(e)	23,705
Total cost of revenue	\$ 207,947	\$ 23,705		\$ 231,652
Gross profit	\$ 624,927	\$ (23,705)		\$ 601,222
Operating expenses:				
Depreciation and amortisation expenses	36,544	(36,544)	(e)	—
Employment expenses	150,540	(150,540)	(f)	—
Share-based payment expenses	47,855	(47,855)	(g)	—
Net loss on financial liabilities at fair value	47,219	(47,219)	(i)	—
Marketing expenses	178,259	(178,259)	(o)	—
Other operating expenses	211,108	(211,108)	(j)	—
Transaction and loan losses	—	225,215	(h)	225,215
Receivables impairment expenses	225,215	(225,215)	(h)	—
Amortization of acquired customer assets	—	3,069	(e)	3,069
Sales and marketing	—	252,792		252,792
		60,000	(f)	
		13,863	(g)	
		670	(j)	
		178,259	(o)	
General and administrative	—	263,299		263,299
		70,425	(f)	
		17,144	(g)	
		175,730	(j)	
Product development	—	80,943		80,943
		9,770	(e)	
		20,115	(f)	
		16,848	(g)	
		34,210	(j)	
Total operating expenses	\$ 896,740	\$ (71,422)		\$ 825,318
Operating income (loss)	\$ (271,813)	\$ 47,717		\$ (224,096)
Other expense (income), net	—	241,823		241,823
		47,219	(i)	
		498	(j)	
		(3,259)	(k)	
		(9,645)	(l)	
		(293)	(m)	
		207,303	(n)	
Share of loss (profit) of associate	(3,259)	3,259	(k)	—
Gain on dilution of shareholding in associate	(9,645)	9,645	(l)	—
Finance income	(293)	293	(m)	—
Finance costs	207,303	(207,303)	(n)	—
Income (loss) before income tax	\$ (465,919)	\$ —		\$ (465,919)

Provision (benefit) for income taxes	(146,002)	—	(146,002)
Net income (loss)	\$ (319,917)	\$ —	\$ (319,917)

Notes:

- (a) Represents a reclassification to Block's Subscription and services-based revenue from Afterpay's Afterpay income.
- (b) Represents a reclassification to Block's Subscription and services-based revenue from Afterpay's Pay Now revenue.
- (c) Represents a reclassification to Block's Subscription and services-based revenue from Afterpay's Other income.
- (d) Represents a reclassification to Block's Subscription and services-based costs from Afterpay's Cost of sales.
- (e) Represents a reclassification to Block's Product and development expense, Amortization of acquired technology, and Amortization of acquired customer assets from Afterpay's Depreciation and amortisation expenses.
- (f) Represents a reclassification to Block's Product development, Sales and marketing, and General and administrative expenses, from Afterpay's Employment expenses. Allocation to Block's accounts was based on headcount.
- (g) Represents a reclassification to Block's Product development, Sales and marketing, and General and administrative expenses, from Afterpay's Share-based payment expenses. Allocation to Block's accounts was based on headcount.
- (h) Represents a reclassification to Block's Transaction and loan losses from Afterpay's Receivables impairment expense.
- (i) Represents a reclassification to Block's Other expense (income), net, from Afterpay's Net loss on financial liabilities at fair value.
- (j) Represents a reclassification to Block's Other expense (income), net, Product development, Sales and marketing, and General and administrative expenses from Afterpay's Other operating expenses. Allocation to Block's accounts for Afterpay's travel and entertainment expenses was based on headcount.
- (k) Represents a reclassification to Block's Other expense (income), net, from Afterpay's Share of loss (profit) of associate.
- (l) Represents a reclassification to Block's Other expense (income), net, from Afterpay's Gain on dilution of shareholding in associate.
- (m) Represents a reclassification to Block's Other expense (income), net from Afterpay's Finance income.
- (n) Represents a reclassification to Block's Other expense (income), net from Afterpay's Finance costs.
- (o) Represents a reclassification to Block's Sales and marketing from Afterpay's Marketing expenses.

NOTE 6 – PRELIMINARY PURCHASE PRICE ALLOCATION

The following summarizes the preliminary calculation of the purchase consideration transferred on January 31, 2022, based upon the number of shares issued, as follows:

Preliminary calculation of Purchase Consideration		<i>(in thousands)</i>
Share consideration		
Block common stock issued at close of the Transaction	113,387,895	
Block common stock issued for vested US ESOP Options that were net-settled (i)	229,457	
Total Block common stock issued	113,617,352	
Share price of Block as of close January 31, 2022	\$ 122.29	
Preliminary share consideration		\$13,894,266
Cash paid for employee tax withholdings in connection with the net-settlement of the US ESOP Options (ii)		8,693
Less: Estimated value of Matrix Convertible Note settlement accounted for as post-combination expense by Block (iii)		(64,190)
Less: Estimated value of the accelerated vesting of certain equity awards accounted for as a post-combination expense by Block (iv)		(2,147)
Preliminary Purchase Consideration		<u>\$13,836,622</u>

Notes:

- (i) Represents vested US ESOP Options that were net-settled in shares of Block Class A common stock in connection with the closing of the Transaction.
- (ii) Represents cash paid for employee tax withholdings in connection with the net settlement of the US ESOP Options.
- (iii) Represents the portion of the settlement amount attributable to post-combination services as a result of the early conversion of the Matrix Convertible Note on December 20, 2021. Upon settlement, Block has discretionarily released the holders of the Matrix Convertible Note from any further service obligations to the combined company in the post-combination period, and recognizes the value of such waived post-combination services as a day one charge on its statement of operations. Therefore, the portion of the settlement amount attributable to post-combination services is deducted from the purchase consideration.
- (iv) Represents the additional fair value of stock-based compensation awards discretionarily accelerated by Block and attributable to post-combination expense.

The table below includes the preliminary calculation of assets acquired and liabilities assumed performed for the purpose of these unaudited pro forma financial statements. The allocation of the purchase price to the fair values of the assets acquired and liabilities assumed includes pro forma adjustments to the fair values of Afterpay's assets and liabilities. At the time of this filing, Block has not finalized the detailed valuation analysis related to the fair values of identifiable assets acquired and liabilities assumed. The final amounts recorded for the acquisition may differ materially from the amounts presented in the unaudited pro forma condensed combined financial statements.

The total preliminary estimated purchase consideration as calculated in the table above is allocated to the tangible and intangible assets acquired and liabilities assumed of Afterpay based on their estimated fair values as if the Transaction had been completed on December 31, 2021, which is the assumed acquisition date for purposes of the unaudited pro forma condensed combined balance sheet. Goodwill represents the excess of acquisition consideration over the fair value of the underlying net assets acquired. In accordance with ASC 350, *Goodwill and Other Intangible Assets*, goodwill is not amortized, but instead is reviewed for impairment at least annually, absent any indicators of impairment. Goodwill recorded in the Transaction is not expected to be deductible for tax purposes.

	<i>(in thousands)</i>
Preliminary Purchase Consideration	\$13,836,622
Assets acquired:	
Cash and cash equivalents	515,905
Consumer receivables, net	1,563,252
Other current assets	101,522
Property and equipment, net	6,846
Acquired intangible assets	2,025,000
Operating lease right-of-use asset	32,899
Other non-current assets	56,512
Total assets	\$ 4,301,936
Liabilities assumed:	
Accounts payable	2,705
Customers payable	100,169
Accrued expenses and other current liabilities	235,126
Current portion of long-term debt	1,089,431
Operating lease liabilities, current	17,913
Operating lease liabilities, non-current	11,681
Long-term debt	368,890
Deferred tax liability	245,177
Other non-current liabilities	42,903
Total liabilities	\$ 2,113,995
Net assets acquired	\$ 2,187,941
Goodwill	\$11,648,681

NOTE 7 – ADJUSTMENTS TO THE UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET AS OF DECEMBER 31, 2021

- (A) *Current portion of long-term debt* - Reflects the change from Afterpay's historical net book value associated with the SGX-listed convertible notes issued by Afterpay in the principal amount of A\$1.5 billion on March 12, 2021 (the "SGX-listed Convertible Notes") of \$1.089 billion to preliminary estimated fair value of \$1.085 billion. Refer to Note 7(E) below for the reversal of the equity component associated with the SGX-listed Convertible Notes.
- (B) *Goodwill* – Represents an increase of \$11.649 billion related to goodwill, inclusive of historical Afterpay goodwill of \$81.6 million, which was calculated as the excess of the estimated purchase price of \$13.8 billion over the \$2.2 billion in net assets acquired. Refer to Note 6 - Preliminary Purchase Price Allocation for details on Block management's calculation of goodwill.
- (C) *Acquired intangibles, net* – The net increase in Acquired intangible assets, net of \$1.9 billion represents the change from Afterpay's historical net book value to preliminary estimated fair value as follows:

	<i>(in thousands)</i>
Fair value of intangible assets acquired	\$2,025,000
Less: Carrying value of Afterpay's historical acquired intangible assets	(104,245)
Pro forma net adjustment to acquired intangible assets, net	\$ 1,920,755

Refer to Note 8(A) below for further details regarding specific intangible assets acquired and related useful lives.

- (D) *Deferred Tax Assets & Liabilities* – Prior to the Transaction, Afterpay and Block had recorded deferred tax assets of \$247.3 million and \$14.1 million, respectively. Block recorded a decrease in their deferred tax assets of \$84.2 million as a result of the GAAP fair value adjustments. Additionally, as part of the opening balance sheet calculations, Block performed an analysis to assess the realizability of both Block's and Afterpay's historic deferred tax assets. It was determined that after the acquisition, Afterpay and Block will file a consolidated Australia tax return. Based on the valuation allowance analysis, Block's management concluded that there was sufficient evidence to record a valuation allowance in Australia of \$161.0 million and \$11.7 million for Afterpay and Block, respectively. The Afterpay adjustment of \$161.0 million will be recorded as part of the purchase accounting adjustments. In the pro forma balance sheet, the Block adjustment of \$11.7 million is recorded against historical Australia deferred tax assets and as an adjustment to Block's retained earnings. These adjustments brought the combined deferred tax assets to \$4.5 million.

Prior to the Transaction, Afterpay and Block had recorded deferred tax liabilities of \$0 and \$14.1 million, respectively. Afterpay recorded an increase in their deferred tax liabilities of \$245.2 million as a result of the GAAP fair value adjustments. This brought the combined deferred tax liabilities to \$259.2 million.

	<i>(in thousands)</i>
Historical Block DTA	\$ 14,138
Historical Block (DTL)	(14,065)
Historical Afterpay DTA	247,285
Historical Afterpay (DTL)	—
Subtotal DTA	<u>\$ 261,423</u>
Subtotal (DTL)	<u>\$ (14,065)</u>
Afterpay PPA Adjustment DTA	\$ (84,241)
Afterpay Valuation Allowance	(160,953)
Afterpay PPA Adjustment (DTL)	(245,177)
Block Valuation Allowance	(11,727)
Net Tax Entry	<u>\$ (502,098)</u>
DTA Attributable to Afterpay	\$ 2,091
DTA Attributable to Historical Block	2,411
Combined Deferred Tax Asset	<u>\$ 4,502</u>
DTL Attributable to Afterpay	\$ (245,177)
DTL Attributable to Historical Block	(14,065)
Combined Deferred Tax Liability	<u>\$ (259,242)</u>

Deferred taxes are based on a blended statutory U.S. federal and state tax rate and statutory tax rates of the respective foreign jurisdictions in which both Block and Afterpay operate. The statutory tax rates range from 19% to 30%, which are in effect as of the pro forma balance sheet date. The actual effective tax rate could be materially different (either higher or lower) from the rate presented in the unaudited pro forma condensed combined financial information. Deferred taxes are based on the assumption Block and Afterpay U.S. entities are not able to file consolidated U.S. federal tax filings, immediately following the Transaction. These assumptions could change depending on post-acquisition activities, the geographical mix of income, changes in tax law, as well as the final determination of the fair value of the identifiable intangible assets and liabilities.

As part of their due diligence, Block identified potential tax exposures. As a result of the Transaction, Block recorded unrecognized tax benefits of \$31.0 million and \$5.4 million of liabilities related to indirect taxes.

	<i>(in thousands)</i>
Unrecognized Tax Benefit	\$ 31,004
Total Unrecognized Tax Benefit Adjustment	<u>\$ 31,004</u>
Total Tax Contingencies	\$ 5,378
Total Tax Contingency Liability Adjustment	<u>\$ 5,378</u>

(E) *Stockholders' equity* –The increase in equity balances consists of the following:

	<i>(in thousands)</i>
Fair value of common stock issued in connection with the Transaction and net settlement of vested US ESOP Options (i)	\$13,894,266
Decrease in Afterpay's additional paid-in capital from one-time charge associated with the Matrix Convertible Note attributable to the post-combination period and the accelerated vesting of certain equity awards (ii)	(66,337)
Removal of Afterpay's historical shareholders' equity - Additional paid-in capital	(1,090,903)
Increase in Afterpay's additional paid-in capital from one-time charge associated with the Matrix Convertible Note attributable to the post-combination period (ii)	64,190
Removal of Afterpay's historical shareholders' equity - Accumulated other comprehensive income	10,885
Removal of SGX-listed Convertible Notes (equity component) in Afterpay's historical shareholders' equity - Accumulated other comprehensive income	(120,494)
Removal of Afterpay's historical shareholders' equity - Retained earnings	429,881
Block's estimated transaction costs and other one-time charges - Retained earnings (ii)	(90,595)
Decrease in Block's retained earnings associated with the valuation allowance related to historical Block, Inc. deferred tax assets in Australia (iii)	(11,727)
Non-controlling interest (iv)	(621)
Pro forma net adjustment to total equity	<u>\$13,018,545</u>

- (i) Value was determined as follows: (a) Block Class A common stock issued as of close on January 31, 2022, plus (b) Block Class A common stock issued for vested US ESOP Options that were net-settled, where the sum of (a) and (b) is then multiplied by (c) Share price of Block as of close on January 31, 2022.
- (ii) *Transaction costs and other one-time charges* - A decrease in Block's retained earnings of \$90.6 million reflects the impact of Block's portion of transaction costs and a one-time charge associated with the settlement of the Matrix Convertible Note attributable to the post-combination period, which are not recurring in nature. Other one-time charges result in a net decrease of \$2.1 million to Afterpay's additional paid-in capital, which consists of an increase of \$64.2 million related to the settlement of the Matrix Convertible Note attributable to the post-combination period and an offsetting decrease of \$64.2 million for the aforementioned item given that it has been included within the preliminary share consideration (refer to Note 6(iii) above for further details), and a decrease of \$2.1 million related to the accelerated vesting of certain equity awards.
- (iii) Refer to Note 7(D) above for further details.
- (iv) *Noncontrolling interest* - The decrease in noncontrolling interest of \$0.6 million reflects the early exercise of the call option on the remaining 6.5% non-controlling interest in Clearpay Finance

Limited (“Clearpay”) held by Afterpay (the “Clearpay Call Option”) and the exchange of equity awards held by Afterpay employees and exercisable into certain Afterpay subsidiaries’ equity (i.e., US ESOP Options and the Afterpay UK Employee Option Plan) for replacement equity awards exercisable into Block Class A common stock as part of the Transaction. Historically, Afterpay recognized such awards issued to employees as non-controlling interest.

- (F) *Accrued expenses and other current liabilities* - The decrease in accrued expenses and other current liabilities consists of the following:
- (i) *Transaction costs and other one-time charges* - Reflects the net accrual for transaction costs directly attributable to the Transaction of \$16.4 million, which reflects \$26.4 million attributed to Block that is partially offset by \$10.0 million attributable to the Company’s downward estimate of Afterpay’s portion of transaction costs based on the closing price of Block Class A common stock as of January 31, 2022. The \$26.4 million is also reflected as an increase in retained earnings and \$10.0 million is reflected as a decrease in goodwill. Refer to Notes 7(B) and 7(E) above for further details.
 - (ii) *Pagantis Convertible Note* – Reflects the change from Afterpay’s historical net book value of \$44.0 million to preliminary estimated fair value of \$44.8 million associated with the convertible promissory note issued as part of the acquisition of Pagantis, S.A.U. and PMT Technology S.L.U. (the “Pagantis Convertible Note”).
 - (iii) *Clearpay Put Option* – Reflects the removal of the put option on the remaining 6.5% non-controlling interest in Clearpay held by ThinkSmart Europe Limited (“ThinkSmart”) (the “Clearpay Put Option”) of \$99.5 million. The Clearpay Put Option is only exercisable by ThinkSmart in the event Afterpay does not exercise its Call Option. On January 17, 2022, Afterpay exercised the Clearpay Call Option to acquire the remaining non-controlling interest in Clearpay held by ThinkSmart, and the Clearpay Put Option was eliminated. Refer to Note 7(E) above for further details.
- (G) *Cash and cash equivalents* - Reflects the decrease in cash and cash equivalents of \$8.7 million resulting from the cash paid for employee tax withholdings in connection with the net settlement of US ESOP Options. Refer to Notes 6(ii) and 7(E) above for further details.

NOTE 8 – ADJUSTMENTS TO THE UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2021

- (A) *Amortization of acquired technology and Amortization of acquired customer assets* – The incremental amortization expense related to the finite-lived intangible assets identified in connection with the Transaction is recorded within two accounts. The incremental amortization related to Developed Technology of \$24.1 million is included within Amortization of acquired technology for the year ended December 31, 2021.

The incremental amortization related to Customer Relationships, Consumer Relationships, Trade Name - Afterpay and Trade Name - Clearpay of \$134.1 million is included within Amortization of acquired customer assets for the year ended December 31, 2021.

The table below summarizes the preliminary estimated fair value of identifiable intangible assets acquired, including the estimated useful lives which was used to determine the amortization expense on a straight-line basis:

(in thousands)

<u>Identifiable intangible assets</u>	<u>Estimated Fair Value (USD)</u>	<u>Estimated Useful Life (in years)</u>	<u>Classification within Statement of Operations</u>	<u>Year Ended December 31, 2021 Amortization Expense (USD)</u>
Developed Technology	\$ 239,000	5	Amortization of acquired technology	\$ 47,800
Less: Historical Amortization Expense				(23,705)
Increase/(Decrease) in Amortization Expense				\$ 24,095
Customer Relationships	\$1,172,000	15	Amortization of acquired customer assets	\$ 78,133
Consumer Relationships	206,000	15	Amortization of acquired customer assets	13,733
Trade Name - Afterpay	308,000	9	Amortization of acquired customer assets	34,222
Trade Name - Clearpay	100,000	9	Amortization of acquired customer assets	11,111
Subtotal	\$2,025,000			\$ 137,199
Less: Historical Amortization Expense				(3,069)
Increase/(Decrease) in Amortization Expense				\$ 134,130

- (B) *Stock based compensation expense* – Reflects the stock based compensation expense expected to be incurred in connection with the replacement equity awards, net of historical stock compensation expense incurred by Afterpay. The stock based compensation expense is calculated using a January 31, 2022 cut-off date, consistent with the date of the share registry utilized in Note 6 above. The aggregate stock based compensation expense for the year ended December 31, 2021 is calculated as follows (note that the stock based compensation expense was allocated to Product development, Sales and marketing, and General and administrative based on headcount):

<u>(in thousands)</u>	<u>Classification within Statement of Operations</u>	<u>Year Ended December 31, 2021</u>
Anticipated stock compensation expense due to vesting of replacement equity awards	Product and development	\$ 24,713
Less: Historical stock compensation expense		(16,848)
Net adjustment related to stock based compensation expense		\$ 7,865
Anticipated stock compensation expense due to vesting of replacement equity awards	Sales and marketing	\$ 20,334
Less: Historical stock compensation expense		(13,863)
Net adjustment related to stock based compensation expense		\$ 6,471
Anticipated stock compensation expense due to vesting of replacement equity awards	General and administrative	\$ 25,147
Less: Historical stock compensation expense		(17,144)
Net adjustment related to stock based compensation expense		\$ 8,003

- (C) *Clearpay Put Option mark-to-market* – Reflects the reversal of historical periodic mark-to-market expense of \$52.0 million for the year ended December 31, 2021 related to the extinguishment of the Clearpay Put Option. Refer to Notes 7(E) and 7(F) above for further details.
- (D) *SGX-listed Convertible Notes interest expense* – Reflects the reversal of \$27.8 million in interest expense on the SGX-listed Convertible Notes incurred by Afterpay within its historical financial statements for the year ended December 31, 2021. Refer to Note 7(A) above for further details.
- (E) *Income tax expense (benefit)* – The net decrease in pro forma income tax expense (benefit) reflects the estimated tax effect of the pro forma adjustments using the blended statutory U.S. federal and state tax rate and statutory tax rates of the respective foreign jurisdictions in which Block and Afterpay operate. The statutory tax rates range from 19% to 30%, which are in effect as of the pro forma income statement dates. The actual effective tax rate could be materially different (either higher or lower) from the rate presented in the unaudited pro forma condensed combined financial information. Additionally, as explained in Note 7(D) the acquisition of Afterpay will result in Block recording a valuation allowance against its historical Australian deferred tax assets. As a result, Block will record an additional tax expense related to the \$11.7 million valuation allowance established in the pro forma period presented.

<i>(in thousands)</i>	Year Ended December 31, 2021
Historical Block income tax expense (benefit)	\$ (1,364)
Historical Afterpay income tax expense (benefit)	(146,002)
Income tax expense (benefit) resulting from acquisition adjustments	30,013
Total income tax expense (benefit)	<u>\$ (117,353)</u>

- (F) *Matrix Convertible Note day one post-combination charge* – The increase in general and administrative expense of \$64.2 million for the year ended December 31, 2021 reflects the portion of the settlement amount of the Matrix Convertible Note attributable to post-combination services that will be recognized as a post-combination day one expense through the statement of operations. Refer to Notes 6(iii) and 7(E) above further details.
- (G) *Transaction costs* - The increase in general and administrative expense of \$16.4 million for the year ended December 31, 2021 reflects the additional costs that are directly attributable to the Transaction. Refer to Note 7(F) above for further details.
- (H) *Pagantis Convertible Note* – Reflects the increase of periodic mark-to-market expense of \$0.8 million for the year ended December 31, 2021 related to the increase in fair valuation of the Pagantis Convertible Note. Refer to Note 7(F) above for further details.
- (I) *Noncontrolling interests* - Reflects the reversal of \$0.8 million for the year ended December 31, 2021 related to the net loss attributable to noncontrolling interest. Refer to Notes 7(E) and 7(F) above for further details.
- (J) *Accelerated vesting of certain equity awards day one post-combination charge* - The increase in general and administrative expense of \$2.1 million for the year ended December 31, 2021 reflects the fair value of certain stock-based compensation awards attributable to post-combination services and subject to accelerated vesting that will be recognized as a post-combination day one expense through the statement of operations. Refer to Notes 6(iv) and 7(E) above for further details.

NOTE 9 – EARNINGS PER SHARE

The unaudited pro forma condensed combined basic and diluted earnings per share calculations are based on the condensed combined basic and diluted average shares of Block and Afterpay.

The pro forma basic and diluted weighted average shares outstanding are a combination of historical Block common stock and the Block common stock issued as part of the Transaction at an exchange ratio of 0.375 Block Class A common stock or 0.375 Block CHESS Depositary Interest per Afterpay share.

<i>(in thousands, except per share data)</i>	Year Ended December 31, 2021
Pro Forma Weighted Average Shares	
Basic weighted average number of common shares outstanding - historical	458,432
Common shares issued as part of Transaction	113,617
Pro forma weighted average shares - Basic and Diluted	572,049
Pro Forma Earnings per Share	
Pro forma net income (loss) attributable to common shareholders	\$ (368,108)
Basic – pro forma	\$ (0.64)
Diluted – pro forma	\$ (0.64)