

Software and data product revenue for the nine months ended September 30, 2015, increased by \$29.6 million compared to the nine months ended September 30, 2014. The increase was driven by the launch of several new products and services in 2014, including Square Capital. Software and data product revenue also reflects revenue contributions from Caviar, which we acquired in August 2014. Software and data product revenue grew to 4% of total net revenue in the nine months ended September 30, 2015, up from 1% in the nine months ended September 30, 2014.

Hardware revenue for the nine months ended September 30, 2015, increased by \$4.7 million, or 89%, compared to the nine months ended September 30, 2014. The increase reflects growth in our sales of Square Stand and third-party peripherals, as well as the launch of our Square Reader for EMV chip cards in the second quarter of 2015. Hardware revenue represented 1% of total net revenue in both the nine months ended September 30, 2015 and 2014.

### **Total Cost of Revenue**

The following table sets forth our total cost of revenue for the periods shown:

	<b>Nine Months Ended September 30,</b>		<b>\$ Change</b>	<b>% Change</b>
	<b>2014</b>	<b>2015</b>		
	<b>(in thousands)</b>			
	<b>(unaudited)</b>			
Transaction costs	\$318,501	\$479,937	\$ 161,436	51%
Starbucks transaction costs	107,889	118,542	10,653	10%
Software and data product costs	1,032	13,820	12,788	NM
Hardware costs	13,527	16,636	3,109	23%
Amortization of acquired technology	602	2,886	2,284	NM
Total cost of revenue	<u>\$441,551</u>	<u>\$631,821</u>	<u>\$ 190,270</u>	<u>43%</u>

Total cost of revenue for the nine months ended September 30, 2015, increased by \$190.3 million, or 43%, compared to the nine months ended September 30, 2014.

Transaction costs for the nine months ended September 30, 2015, increased by \$161.4 million, or 51%, compared to the nine months ended September 30, 2014. This increase was attributable to growth in GPV processed of \$8.6 billion, or 51%, to \$25.5 billion from \$16.8 billion. Transaction costs as a percentage of GPV remained constant period to period.

Starbucks transaction costs for the nine months ended September 30, 2015, increased by \$10.7 million, or 10%, compared to the nine months ended September 30, 2014.

Software and data product costs for the nine months ended September 30, 2015, increased by \$12.8 million compared to the nine months ended September 30, 2014. Software and data product costs primarily reflect the ongoing costs associated with our acquisition of Caviar in August 2014 and with the introduction of our Square Appointments service following our acquisition of BookFresh in February 2014.

Hardware costs for the nine months ended September 30, 2015, increased by \$3.1 million, or 23%, compared to the nine months ended September 30, 2014. The increase was attributable to increased sales of Square Stand and third-party

### **Table of Contents**

peripherals, as well as the launch of our Square Reader for EMV chip cards in the second quarter of 2015. Hardware costs associated with the production of Square Stand exceed the revenue we derive from sales of Square Stand, resulting in a negative gross margin. For the nine months ended September 30, 2015, hardware costs grew more slowly than hardware revenue as a result of increased sales of third-party peripherals and Square Readers for EMV chip cards, both of which are sold at higher relative gross margins than our Square Stand product.

Amortization of acquired technology for the nine months ended September 30, 2015, increased by \$2.3 million compared to the nine months ended September 30, 2014. The increase was driven primarily by acquired technology assets from our 2014