

Hardware revenue for the year ended December 31, 2014, increased by \$3.1 million, or 73%, compared to the year ended December 31, 2013. The increase was attributable to growth in sales of Square Stand and third-party peripherals. Hardware revenue contributed 1% of total net revenue in 2014.

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### **Comparison of Years Ended December 31, 2012 and 2013**

Total net revenue for the year ended December 31, 2013, increased by \$349.0 million, or 172%, compared to the year ended December 31, 2012.

Transaction revenue for the year ended December 31, 2013, increased by \$239.8 million, or 124%, compared to the year ended December 31, 2012. This increase was attributable to growth in GPV processed of \$8.3 billion, or 127%, to \$14.8 billion from \$6.5 billion. A relatively greater proportion of growth in GPV was derived from new sellers added within the year ended December 31, 2013; a smaller though still meaningful portion was generated by growth in GPV from the payment activity of existing sellers that were approved to transact with us on or prior to December 31, 2012. Transaction revenue contributed 79% of total net revenue in the year ended December 31, 2013, down from 95% in the year ended December 31, 2012.

Starbucks transaction revenue for the year ended December 31, 2013, increased by \$105.0 million compared to the year ended December 31, 2012. Our agreement to provide payment processing for Starbucks commenced in the fourth quarter of 2012, and 2013 was the first year to include a full 12 months of Starbucks transaction revenue. As a result, Starbucks transaction revenue contributed 21% of total net revenue in the year ended December 31, 2013, up from 5% in the year ended December 31, 2012. The year ended December 31, 2012, also included a \$2.2 million non-recurring contra-revenue charge to account for a share-based incentive incurred in connection with entering into our payment processing agreement with Starbucks.

Software and data product revenue was nominal for the year ended December 31, 2013, and zero for the year ended December 31, 2012, as the related services were launched or acquired primarily in 2014.

Hardware revenue for the year ended December 31, 2013, increased by \$4.2 million compared to the year ended December 31, 2012. In 2013, we began selling Square Stands. Hardware revenue was zero for the year ended December 31, 2012.

### **Total Cost of Revenue**

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

	<b>Year Ended December 31,</b>			<b>2012 to 2013</b> <b>% Change</b>	<b>2013 to 2014</b> <b>% Change</b>
	<b>2012</b>	<b>2013</b>	<b>2014</b>		
	<b>(in thousands)</b>				
Transaction costs	\$126,351	\$277,833	\$450,858	120%	62%
Starbucks transaction costs	12,547	139,803	150,955	NM	8%
Software and data product costs	—	—	2,973	NM	NM
Hardware costs	—	6,012	18,330	NM	205%
Amortization of acquired technology	—	—	1,002	NM	NM
<b>Total cost of revenue</b>	<b>\$138,898</b>	<b>\$423,648</b>	<b>\$624,118</b>	<b>205%</b>	<b>47%</b>

### **Comparison of Years Ended December 31, 2013 and 2014**

Total cost of revenue for the year ended December 31, 2014, increased by \$200.5 million, or 47%, compared to the year ended December 31, 2013.

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