

Transaction costs for the year ended December 31, 2014, increased by \$173.0 million, or 62%, compared to the year ended December 31, 2013. This increase was attributable to growth in GPV processed of \$9.0 billion, or 60%. Our transaction costs as a percentage of transaction revenue declined from 2013 to 2014, primarily as a result of the discontinuation in the first quarter of 2014 of our monthly pricing program, under which we charged sellers \$275 for up to \$21,000 of payment processing.

Starbucks transaction costs for the year ended December 31, 2014, increased by \$11.2 million, or 8%, compared to the year ended December 31, 2013.

Software and data product costs for the year ended December 31, 2014, were \$3.0 million and were nominal in the year ended December 31, 2013. Software and data product costs reflect the ongoing costs associated with Caviar following its acquisition in August 2014 and costs associated with the introduction of our Square Appointments services following our acquisition of BookFresh in February 2014.

Hardware costs for the year ended December 31, 2014, increased by \$12.3 million, or 205%, compared to the year ended December 31, 2013. The increase was attributable to increased sales of Square Stand and third-party peripherals. 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.

Amortization of technology assets for the year ended December 31, 2014, was \$1.0 million, compared to zero in the year ended December 31, 2013. In 2014, we acquired technology assets through the acquisitions of BookFresh and Caviar.

Comparison of Years Ended December 31, 2012 and 2013

Total cost of revenue for the year ended December 31, 2013, increased by \$284.8 million, or 205%, compared to the year ended December 31, 2012.

Transaction costs for the year ended December 31, 2013, increased by \$151.5 million, or 120%, compared to the year ended December 31, 2012. This increase was attributable to growth in GPV processed of \$8.3 billion, or 127%. During the year transaction costs as a percentage of GPV declined as a result of renegotiated costs with our processing partners.

Starbucks transaction costs for the year ended December 31, 2013, increased by \$127.3 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 as a result 2013 represented the first year to include a full 12 months of Starbucks transaction costs.

Software and data product costs were 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 in 2014 and 2015.

Hardware costs for the year ended December 31, 2013, were \$6.0 million compared to zero for the year ended December 31, 2012, reflecting the commencement of sales of Square Stand and third-party peripherals.

Amortization of technology assets was zero for both the year ended December 31, 2013, and the year ended December 31, 2012, as we did not acquire any technology assets until 2014.

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Product Development

The following table sets forth our product development expenses for the periods shown:

	Year Ended December 31,			2012 to 2013	2013 to 2014
	2012	2013	2014	% Change	% Change
	(in thousands)				
Product development	\$46,568	\$82,864	\$144,637	78%	75%
Percentage of total net revenue	23%	15%	17%		

Product development expenses for the year ended December 31, 2014, increased by \$61.8 million, or 75%, compared to the year ended December 31, 2013. Product development personnel increased by 33% in the period from December 31, 2013, to