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risk and fraud losses accounted for approximately 0.1% of GPV in the 12 months ended September 30, 2015. Since inception, we have ceased providing services to fewer than 5% of sellers due to suspected or confirmed fraudulent behavior, their exceeding our risk parameters, their violation of our terms of service, or other concerns.

### ***We Have a Persistent Communication Channel with Our Sellers***

Our direct, ongoing interactions with our sellers help us to tailor offerings directly to them, at scale and in the context of their usage. For example, when a seller accesses their Square Dashboard—a centralized hub from where they can view and manage daily business operations—we can automatically send a notification to prompt the seller to sign up for Square Customer Engagement and take action on what they learned. On average, nearly 70% of sellers who process more than \$125,000 per year engage daily with analytics in their Square Dashboard.

### ***We Have a Large and Growing Buyer Network***

We have a direct relationship with buyers through various touch points in our ecosystem. In the 12 months ended September 30, 2015, our sellers accepted payments from approximately 180 million payment cards, which we estimate represents approximately one in four active payment cards in circulation in the United States, based on data from The Nilson Report published in February 2015. Our relationship with buyers strengthens our ecosystem. For example, Square Customer Engagement enables sellers to communicate directly with buyers, Square Cash provides buyers a fast and easy way to make and receive payments, and Caviar provides buyers direct access to their favorite restaurants.

## **Our Business Model**

While building services that are great for our sellers, we have also built a business model that presents great opportunity for Square.

Historically, many sellers have not accepted card payments because the process to do so was too costly and too difficult. These barriers to entry reflect the payment industry's legacy of high costs of customer acquisition and fraud. Our business model enables us to greatly reduce these costs and pass savings on to our sellers. By reducing cost and friction, we have expanded the market of sellers accepting card payments and expanded the number of payments they accept.

The foundation of our business model is the millions of sellers processing payments with Square. We estimate that, to date, nearly half of our sellers have found us and signed up, rather than us having found them, adding efficiency to our sales and marketing efforts. We measure the effectiveness of our spending by evaluating the "payback period," which we view as the number of quarters it takes for a cohort of sellers' cumulative transaction revenue net of transaction costs to surpass our sales and marketing spending in the quarter in which we acquired that cohort. On average, our payback period has been four to five quarters.

Our products and services appeal to sellers because they can immediately and easily accept payments at a low, transparent cost with fast access to funds. We act as a payment service provider, which means we can set our own pricing, chargeback, and risk policies with our sellers. We work directly with the payment card networks and banks so our sellers do not need to manage the complex systems, rules, and requirements of the payments industry.

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While many sellers are initially attracted to Square for payments and POS services, they can also benefit from our financial services and marketing services. These services enhance our business model by adding additional revenue with little incremental customer acquisition costs, increasing contribution profit from sellers. As sellers use our financial services and marketing services, their payments activity on Square grows, reinforcing our strong recurring payments revenue.

Revenue from our sellers has grown consistently over time, resulting in strong dollar-based retention rates. Transaction revenue net of transaction costs for each of our 17 quarterly seller cohorts (dating back to the second quarter of 2010) has grown year-over-year in every quarter. Over the past four quarters, retention of transaction revenue net of transaction costs for our