

As of September 30, 2015, approximately 44% of our employees work in our product management, development, and design organizations. Our product development expenses were \$82.9 million and \$144.6 million for the years ended December 31, 2013 and 2014, respectively.

Sales and Marketing

We have a strong brand and continue to raise brand awareness among sellers by enhancing our services and fostering rapid adoption through increased brand affinity, public relations, and strategic partnerships. We estimate that, to date, nearly half of our sellers have found us and signed up, rather than us having found them. We also leverage our direct sales and account management teams to facilitate the acquisition and support of larger sellers. Direct marketing, online and offline, has also been an effective customer acquisition channel. This includes display advertising, search engine marketing, social media, direct mail campaigns, trade shows and events, radio and television advertising, and print media. Our Square Readers for magnetic stripe cards are available for free directly via our website or mobile apps, and also at over 35,000 retail stores (including Apple, Best Buy, Staples, Target, Verizon, Walgreens, and Walmart). We plan to continue offering Square Reader for magnetic stripe cards for free.

Our Competition

The markets in which we operate are competitive and evolving. For payments and POS services, we compete primarily with traditional acquiring processors and payment processors who sell more expensive POS systems, often bundled with long-term contracts, through direct sales and ISO channels. While competitive factors and their relative importance vary based on the size, industry, and focus of sellers, we believe the principal methods of competition in the market for payments and POS services are the following:

- accuracy and promptness of payment;
- ability to accept new payment types, such as NFC (Apple Pay, Android Pay and other electronic wallets) and EMV;
- product and service pricing, the transparency of that pricing, and contract complexity and length of commitment;
- simplicity and ease-of-use;
- breadth and depth of features and functionality;

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- brand recognition and reputation;
- integration with payment processing, third-party apps, and mobile platforms;
- security and reliability;
- support for a seller's brand development; and
- ease and timing of seller sign-up process.

Our competitors range from large, well-established vendors to smaller, earlier-stage companies, including third-party acquiring processors or payment processors, POS software and terminal providers, peer-to-peer payment providers, and business software providers such as those that provide ecommerce, inventory management, analytics, and appointment solutions.

We seek to differentiate ourselves from competitors primarily on the basis of our cohesive commerce ecosystem and focus on accessibility, speed, transparency, and trust. Our ability to innovate quickly to accept new payment technologies such as NFC through Apple Pay, Android Pay, and other new currencies further differentiates our payments platform from our competition. Many competitors offer payments and POS services that have features tailored to particular business types or seller needs, and many competitors, especially larger ones, have more comprehensive offerings with specific features and integrations that are attractive to larger sellers and sellers in particular industries.

With respect to our financial services, we compete against established and new alternative lenders as well as other more traditional financial service providers. With respect to our marketing services, we compete with other customer engagement