

The Company entered into a payment processing agreement with Starbucks Corporation ("Starbucks") to provide payment processing services for a portion of their retail locations. Starbucks transaction revenue consists of fees paid by Starbucks, net of refunds, to process their payment transactions and is recognized upon authorization of a transaction. Revenue is recognized on a gross basis as the Company is the primary obligor to the seller and is responsible for processing the payments, has latitude in establishing pricing, has sole discretion in selecting the third party to perform the settlement, and assumes the credit risk for the transactions processed.

Software and data product revenue

Software and data product revenue primarily consists of revenue related to services provided through software offerings, or revenue derived through the use of underlying data, as follows:

- Software as a service, which includes Square Appointments and Square Customer Engagement. The Company provides the use of software for a fee which is recognized ratably over the relevant service period.

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- Square Capital, which offers sellers a cash advance in exchange for a fixed amount of future receivables. For the cash advances in which the Company retains the right to receivables, the difference between the aggregate amount of the future receivables and the cash advance is recognized as revenue ratably as cash is collected. The Company also sells a portion of its future receivables related to its merchant cash advances to third parties. The Company collects and recognizes upfront fees, which are a fixed percentage of the cash advanced when the receivables are sold. The Company also charges third parties an ongoing servicing fee for facilitating the repayment of these receivables through its payment processing platform. The servicing fee is calculated as a fixed percentage of each repayment transaction processed and is collected and recognized as the servicing is performed.
- Caviar, which is a courier order management app that facilitates food delivery services for restaurants. The Company charges restaurants a commission fee based on total food order value for these services. The Company also charges consumers a fixed delivery fee per transaction, as well as a service fee which is based on total food order value. All fees are recognized upon delivery of the food, net of refunds.

Hardware revenue

Hardware revenue is generated from sales of Square Stand and third-party peripherals and Square Readers for EMV chip cards and NFC. Hardware revenue is recorded net of returns and is recognized upon delivery of hardware to the end customer.

Cost of Revenue

Transaction costs

Transaction costs consist primarily of interchange fees set by payment card networks that are paid to the card-issuing financial institution, assessment fees paid to payment networks, fees paid to third-party payment card processors, and bank settlement fees. The Company's contracts with third-party payment processors are typically for a term of two to four years.

Starbucks transaction costs

Starbucks transaction costs are made up of the same components as the Company's overall transaction costs.

Software and data product costs

Software and data products costs consist primarily of Caviar-related costs, which include payments to third-party couriers for deliveries and seller-facing equipment. Cost of revenue for other software and data products consist primarily of the allocated portion of costs related to third-party data center facilities and depreciation, as well as personnel-related and facilities costs related to customer support.

Hardware costs