

Square, Inc.  
Form 10-Q  
November 02, 2016  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-37622

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Square, Inc.  
(Exact name of registrant as specified in its charter)

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Delaware 80-0429876  
(State or other jurisdiction of (IRS Employer  
incorporation or organization) Identification No.)

1455 Market Street, Suite 600  
San Francisco, CA 94103  
(Address of principal executive offices, including zip code)  
(415) 375-3176  
(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  (Do not check if smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of October 25, 2016, the number of shares of the registrant's Class A common stock outstanding was 166,302,906 and the number of shares of the registrant's Class B common stock outstanding was 185,836,069.

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## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as “may,” “will,” “appears,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “believes,” “estimates,” “predicts,” “potential,” or “continue,” or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans, or intentions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about our future financial performance, our anticipated growth and growth strategies and our ability to effectively manage that growth, our ability to develop our products and services to operate with changing technology, our anticipated expansion and growth in Gross Payment Volume (GPV) and revenue in international markets, our plans for funding and expanding Square Capital, our expectations regarding litigation, our expectations regarding the effect the Starbucks transition will have on our net revenue, and the sufficiency of our cash and cash equivalents and cash generated from operations to meet our working capital and capital expenditure requirements.

The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, and other factors described in the section titled “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q.

We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law.

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## Part I—Financial Information

## Item 1. Financial Statements

## SQUARE, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share and per share data)

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 437,900	\$ 470,775
Short-term investments	76,427	—
Restricted cash	13,559	13,537
Settlements receivable	233,812	142,727
Loans held for sale	28,817	604
Merchant cash advance receivable, net	8,268	36,473
Other current assets	44,244	41,447
Total current assets	843,027	705,563
Property and equipment, net	89,957	87,222
Goodwill	56,699	56,699
Acquired intangible assets, net	20,252	26,776
Long-term investments	15,478	—
Restricted cash	23,137	14,686
Other assets	3,658	3,826
Total assets	\$ 1,052,208	\$ 894,772
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 13,719	\$ 18,869
Customers payable	364,434	224,811
Accrued transaction losses	21,428	17,176
Accrued expenses	41,943	44,401
Other current liabilities	44,500	28,945
Total current liabilities	486,024	334,202
Other liabilities	55,795	52,522
Total liabilities	541,819	386,724
Commitments and contingencies (Note 17)		
Stockholders' equity:		
Preferred stock, \$0.0000001 par value: 100,000,000 shares authorized at September 30, 2016 and December 31, 2015. None issued and outstanding at September 30, 2016 and December 31, 2015.	—	—
Common stock, \$0.0000001 par value: 1,000,000,000 Class A shares authorized at September 30, 2016 and December 31, 2015; 162,988,864 and 31,717,133 issued and outstanding at September 30, 2016 and December 31, 2015, respectively. 500,000,000 Class B shares authorized at both September 30, 2016 and December 31, 2015; 188,328,922 and 303,232,312 issued and outstanding at September 30, 2016 and December 31, 2015, respectively.	—	—
Additional paid-in capital	1,274,248	1,116,882
Accumulated deficit	(764,072)	(607,649)
Accumulated other comprehensive income (loss)	213	(1,185)
Total stockholders' equity	510,389	508,048

Total liabilities and stockholders' equity \$ 1,052,208 \$ 894,772

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

SQUARE, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue:				
Transaction revenue	\$388,347	\$280,955	\$1,053,664	\$751,929
Starbucks transaction revenue	7,164	32,332	78,869	95,199
Software and data product revenue	35,320	14,694	88,833	35,628
Hardware revenue	8,171	4,207	35,438	10,002
Total net revenue	439,002	332,188	1,256,804	892,758
Cost of revenue:				
Transaction costs	254,061	182,007	683,194	479,937
Starbucks transaction costs	4,528	41,410	69,810	118,542
Software and data product costs	12,524	5,593	31,701	13,820
Hardware costs	15,689	5,726	56,444	16,636
Amortization of acquired technology	1,886	1,142	6,142	2,886
Total cost of revenue	288,688	235,878	847,291	631,821
Gross profit	150,314	96,310	409,513	260,937
Operating expenses:				
Product development	70,418	55,020	203,648	140,452
Sales and marketing	46,754	39,259	124,470	107,170
General and administrative	52,075	37,820	198,966	97,743
Transaction, loan and advance losses	12,885	16,005	38,201	40,840
Amortization of acquired customer assets	164	423	703	1,373
Total operating expenses	182,296	148,527	565,988	387,578
Operating loss	(31,982 )	(52,217 )	(156,475 )	(126,641 )
Interest (income) and expense, net	(183 )	137	(243 )	995
Other (income) and expense, net	294	644	(690 )	1,390
Loss before income tax	(32,093 )	(52,998 )	(155,542 )	(129,026 )
Provision for income taxes	230	932	881	2,502
Net loss	\$(32,323 )	\$(53,930 )	\$(156,423 )	\$(131,528 )
Net loss per share:				
Basic	\$(0.09 )	\$(0.35 )	\$(0.46 )	\$(0.88 )
Diluted	\$(0.09 )	\$(0.35 )	\$(0.46 )	\$(0.88 )
Weighted-average shares used to compute net loss per share				
Basic	343,893	152,334	336,593	149,058
Diluted	343,893	152,334	336,593	149,058

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

## SQUARE, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

(In thousands)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net loss	\$(32,323)	\$(53,930)	\$(156,423)	\$(131,528)
Net foreign currency translation adjustments	127	(198)	722	(455)
Net unrealized gain (loss) on revaluation of intercompany loans	74	80	\$656	\$(15)
Net unrealized gain (loss) on marketable securities	(60)	—	20	—
Total comprehensive loss	\$(32,182)	\$(54,048)	\$(155,025)	\$(131,998)

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

SQUARE, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)  
 (In thousands)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	\$(156,423)	\$(131,528)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	27,817	18,526
Share-based compensation	104,899	49,486
Starbucks share-based instruments	—	1,485
Provision for transaction losses	36,875	32,967
Provision for (reduction in) uncollectible merchant cash advances	509	4,616
Deferred provision for income taxes	(104)	(207)
Loss on disposal of property and equipment	(88)	240
Changes in operating assets and liabilities:		
Settlements receivable	(91,390)	(40,729)
Purchase of loans held for sale	(421,243)	—
Proceeds from sales and principal payments of loans held for sale	393,221	—
Merchant cash advance receivable	27,696	(18,725)
Other current assets	(3,011)	(4,457)
Other assets	145	1,102
Accounts payable	(867)	2,048
Customers payable	139,105	89,446
Charge-offs and recoveries to accrued transaction losses	(32,623)	(25,415)
Accrued expenses	86	13,950
Other current liabilities	15,255	1,524
Other noncurrent liabilities	2,376	8,801
Net cash provided by operating activities	42,235	3,130
Cash flows from investing activities:		
Purchase of marketable securities	(139,103)	—
Proceeds from maturities of marketable securities	26,268	—
Proceeds from sale of marketable securities	20,962	—
Purchase of property and equipment	(19,674)	(30,724)
Payment for acquisition of intangible assets	(400)	(110)
Change in restricted cash	(8,473)	(252)
Business acquisitions (net of cash acquired)	—	(4,500)
Net cash used in investing activities	(120,420)	(35,586)
Cash flows from financing activities:		
Principal payments on debt	—	(30,000)
Payments of offering costs related to initial public offering	(5,530)	—
Proceeds from issuances of common stock from the exercise of options and employee stock purchase plan	48,304	12,209
Net cash provided by (used in) financing activities	42,774	(17,791)
Effect of foreign exchange rate changes on cash and cash equivalents	2,536	(970)
Net decrease in cash and cash equivalents	(32,875)	(51,217)
Cash and cash equivalents, beginning of period	470,775	225,300
Cash and cash equivalents, end of period	\$437,900	\$174,083

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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SQUARE, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 - DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

Square, Inc. (together with its subsidiaries, Square or the Company) creates tools that help sellers of all sizes start, run, and grow their businesses – from payment processing to point of sale, hardware to software, business loans to payroll and more. Businesses and individuals can also use Square Cash, an easy way to send and receive money, as well as Caviar, a food delivery service for popular restaurants. Square was founded in 2009 and is headquartered in San Francisco, with offices in the United States, Canada, Japan, and Australia.