

Square, Inc.
Form 10-Q
May 06, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 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

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

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)

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 April 28, 2016, the number of shares of the registrant's Class A common stock outstanding was 51,465,931 and the number of shares of the registrant's Class B common stock outstanding was 283,834,631.

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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,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “contemplates,” “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 anticipated expansion in international markets, our plans for funding and expanding Square Capital, our expectations regarding litigation, 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.

Part I—Financial Information

Item 1. Financial Statements

SQUARE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share and per share data)

	March 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 370,646	\$ 470,775
Short-term investments	43,447	—
Restricted cash	13,542	13,537
Settlements receivable	189,049	142,727
Merchant cash advance receivable, net	48,157	36,473
Other current assets	55,211	42,051
Total current assets	720,052	705,563
Property and equipment, net	89,039	87,222
Goodwill	56,699	56,699
Acquired intangible assets, net	24,463	26,776
Long-term investments	29,715	—
Restricted cash	14,994	14,686
Other assets	10,107	3,826
Total assets	\$ 945,069	\$ 894,772
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 19,580	\$ 18,869
Customers payable	283,860	224,811
Accrued transaction losses	15,419	17,176
Accrued expenses	97,335	44,401
Other current liabilities	33,738	28,945
Total current liabilities	449,932	334,202
Other liabilities	50,253	52,522
Total liabilities	500,185	386,724
Commitments and contingencies (Note 17)		
Stockholders' equity:		
Preferred stock, \$0.0000001 par value: 100,000,000 shares authorized at March 31, 2016, and December 31, 2015. None issued and outstanding at March 31, 2016, and December 31, 2015.	—	—
Common stock, \$0.0000001 par value: 1,000,000,000 Class A shares authorized at both March 31, 2016, and December 31, 2015; 31,717,133 issued and outstanding at both March 31, 2016, and December 31, 2015. 500,000,000 Class B shares authorized at both March 31, 2016, and December 31, 2015; 303,553,308 and 303,232,312 issued and outstanding at March 31, 2016, and December 31, 2015, respectively.	—	—
Additional paid-in capital	1,149,634	1,116,882
Accumulated deficit	(704,404)	(607,649)
Accumulated other comprehensive loss	(346)	(1,185)
Total stockholders' equity	444,884	508,048
Total liabilities and stockholders' equity	\$ 945,069	\$ 894,772

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

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SQUARE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended	
	March 31,	
	2016	2015
Revenue:		
Transaction revenue	\$300,453	\$211,110
Starbucks transaction revenue	38,838	29,237
Software and data product revenue	23,796	8,006
Hardware revenue	16,182	2,204
Total net revenue	379,269	250,557
Cost of revenue:		
Transaction costs	194,276	132,107
Starbucks transaction costs	36,610	36,211
Software and data product costs	9,033	3,155
Hardware costs	26,740	4,197
Amortization of acquired technology	2,370	602
Total cost of revenue	269,029	176,272
Gross profit	110,240	74,285
Operating expenses:		
Product development	64,592	39,545
Sales and marketing	38,496	36,181
General and administrative	96,107	28,119
Transaction and advance losses	7,861	16,322
Amortization of acquired customer assets	317	468
Total operating expenses	207,373	120,635
Operating loss	(97,133)	(46,350)
Interest (income) and expense, net	69	414
Other (income) and expense, net	(786)	796
Loss before income tax	(96,416)	(47,560)
Provision for income taxes	339	418
Net loss	\$(96,755)	\$(47,978)
Net loss per share:		
Basic	\$(0.29)	\$(0.33)
Diluted	\$(0.29)	\$(0.33)
Weighted-average shares used to compute net loss per share		
Basic	331,324	145,069
Diluted	331,324	145,069

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)