

## Square Discloses IPO Plans

By Dori Kojima, J.D. Candidate 2016 | October 23, 2015

On October 14, 2015, Square, the mobile payments start-up, [made public its prospectus](#) for its initial public offering. Private investors valued Square at \$6 billion and more than two million merchants accepted five or more Square transactions last year. Even so, Square's recent filing to raise up to \$275 million revealed new information on its business and profitability. While Square reported a revenue jump to \$850 million last year, a 54 percent increase from a year earlier, its losses increased to \$154 million in 2014. The company also reported a loss of \$77 million on \$561 million in revenue over the first six months of this year. This means that Square will be pitching investors at a time when the company is unprofitable and investors' [interest in IPO's may be weakening](#).

Founded in 2009, San Francisco-based Square freely distributes a square-shaped piece of hardware for mobile devices that enables simple, portable credit card processing by businesses. Square collects 2.75 percent on each transaction with a share going to credit card networks and other financial intermediaries.

Square's prospectus noted Jack Dorsey's dual role as CEO of Square and recent appointment as CEO of social media company Twitter. According to the prospectus, the dual role "may at times adversely affect his ability to devote time, attention and effort to Square." The filing lists Dorsey as the largest shareholder with a 24.4 percent stake in Square and Khosla Ventures, a venture capital firm that backed Square, as the next largest shareholder with a 17.3 percent holding.

Other takeaways from the filing that could worry prospective investors include Square's promise to some backers guaranteeing a return of 20 percent on their investment under a "ratchet" provision. This means that if the company's IPO share price falls below \$18.56, certain shareholders will be automatically issued shares to make up for the loss. [Such ratchets](#) have been problematic for other IPO's. Additionally, Square's filing revealed that its partnership with Starbucks involving countless transactions for Starbucks' customers lost millions and when the arrangement disappears in 2016 will significantly decrease Square's transaction volume. Further, co-founder James McKelvey, General Counsel Dana Wanger and director Larry Summers cashed out of some of their shares in January 2014 at \$13.53.

But Square's business, according to the prospectus, is still projected to grow and the company has recently gone beyond payments processing. In May 2014, the company introduced Square Capital, a cash advance program for small businesses in which it makes a fixed amount of money per advance and has since lent more than \$225 million. Square has also added other subscription services for small businesses such as payroll and scheduling.