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Square, inc.: Financing a unicorn[[1]](#endnote-1)

Mark Simonson wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

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By September 2014, Square, Inc. (Square), the mobile payment company co-founded by Twitter Inc. (Twitter) co-founder Jack Dorsey in 2009, had raised US$371 million[[2]](#endnote-2) over five rounds of venture capital financing (see Exhibit 1). It had been nearly five years since the first, Series A round on November 1, 2009. Some individual investors in that round—including Google Inc. (Google) executive Marissa Mayer and Twitter co-founder Biz Stone—may have been patiently waiting for an exit; however, private equity investors—like the Khosla Ventures fund that served as the lead investor in the Series A round—couldn’t always be so patient.[[3]](#endnote-3) The second half of a venture fund’s 10-year lifespan typically involved a process of exiting a company investment to provide a return for the fund’s partners.[[4]](#endnote-4)

On September 12, 2014, the online technology publication TechCrunch reported that Square had turned down an offer to purchase the company for “around $3 billion” from Apple Inc. (Apple), significantly below the $6 billion it had reportedly been seeking.[[5]](#endnote-5) Another publication, citing a confidential source, reported that “Jack [Dorsey] does not want to sell to Google” and noted that “Square’s design aesthetic and values match up much more closely with Apple than Google” and that Square’s chief hardware designer, Jesse Dorogusker, had worked at Apple on the iPod, iPhone, and iPad.[[6]](#endnote-6)

With no apparent suitable acquirers willing to pay a high enough price, Square also considered an initial public offering (IPO). However, although Square had reportedly been discussing an IPO with investment bankers since late 2013, analysts noted that the firm’s current level of revenue and lack of profitability would not allow it to achieve its desired $6 billion valuation because its “other revenue-generating products have either not yet launched or not yet taken off.”[[7]](#endnote-7)

In need of cash to finance its unprofitable operations and fund its aggressive growth plans, Square began pursuing a sixth, Series E round of venture capital financing. The firm approached investors with private equity funds focused on late-stage investments, including Goldman Sachs Group, Inc. (Goldman Sachs) and Sapphire Ventures LLC.[[8]](#endnote-8) It was now up to the investors to determine whether they could agree to terms that were acceptable to Square and would allow the company to achieve its desired $6 billion valuation.

Unicorns

Square was one of an increasing number of venture capital financed firms that was valued after investment (post-money valuation) above $1 billion. These firms had become known as *unicorns*, a term coined by venture capital investor Aileen Lee in an article written for TechCrunch in November 2013.[[9]](#endnote-9) Post-money valuations were calculated by multiplying the total number of shares of common stock, assuming that all convertible shares and stock options were converted into common stock, by the price paid for shares in the most recent round of financing. Square’s post-money valuation had grown from around $50 million in its November 2009 Series A round to $3.27 billion in its most recent Series D round in 2012 (see Exhibit 1).

Prior to 2014, unicorn-level valuations were rare; only two companies reached this level between 2009 and 2013.[[10]](#endnote-10) However, by July 2014, there were 62 unicorns around the world; 46 of these firms were based in the United States, eight were in China, and others were in Germany, India, Sweden, Israel, Canada, South Korea, and the Czech Republic (see Exhibit 2).[[11]](#endnote-11)

Countering some investors’ growing concerns that these high valuations represented a repeat of the “dot-com bubble” of 2000–2002, Marc Andreesen, Internet pioneer and co-founder of the venture capital firm Andreesen-Horowitz, claimed that it was different this time. He said those making such comparisons “don’t know what they’re talking about.”[[12]](#endnote-12) This comment echoed his widely-cited 2011 *Wall Street Journal* article, “Why Software is Eating the World,” in which he stated that “all of the technology required to transform industries through software finally works and can be widely delivered at global scale.”[[13]](#endnote-13) Citing the larger addressable markets that had been made possible by increased worldwide Internet availability, Andreesen reiterated his thoughts in 2014, stating that “all the ideas of the ’90s that everybody had about how this stuff was going to work, I think they were all right, they were all correct. I think they were just early.”[[14]](#endnote-14)

Some observers declared that the growing number of unicorns was evidence that “Mr. Andreesen’s prophecy is unfolding ahead of schedule.”[[15]](#endnote-15) Others, however, noted that venture-backed firms were becoming overly concerned with maintaining increasing valuations, even if that meant providing advantageous terms to later investors such that the firms were “potentially taking money out of their employees’ pockets for the sake of appearances.”[[16]](#endnote-16) One reporter summed up this concern:

Start-up-land is all about momentum. With so many fast-growing Internet companies dotting downtown San Francisco and Palo Alto, California, why does a highly coveted developer want to ride a sinking ship? A sideways or down financing round is seen as a sign of distress. Employees who thought an IPO was going to make them millionaires, or at least provide enough for a down payment on a home, start to see more promising opportunities elsewhere.[[17]](#endnote-17)

Square

Square was founded in February of 2009 in San Francisco, California. It aimed to take advantage of the burgeoning smartphone market by providing a product that would allow anyone to accept credit card payments on a mobile device.[[18]](#endnote-18) The company developed a free software application, Square Register, and also provided a hardware device, Square Reader, for free, which gave it a competitive advantage over rivals offering costly traditional point-of-sale systems.[[19]](#endnote-19) Based on a business model in which it charged a fixed fee on credit card payments it processed, Square achieved rapid growth in gross payment volume (the value of payments processed), but it had yet to become profitable (see Exhibit 3).[[20]](#endnote-20) Gross payment volume grew by over 125 per cent in 2013 to nearly $15 billion and was on track to grow to over $20 billion in 2014.[[21]](#endnote-21)

The total available market for U.S. payments, $8.9 trillion in 2013, included $4.9 trillion from credit cards, $1.6 trillion from cash, and $1.0 trillion from cheques, and the market was forecast to reach $11.4 trillion by 2018.[[22]](#endnote-22) Square’s addressable market, credit card payments, was projected to grow by 66 per cent by 2018, to $7.6 trillion.[[23]](#endnote-23) To achieve market share within this addressable market, Square targeted small businesses. A U.S. Small Business Administration report estimated in March 2014 that around 30 million small businesses generated 46 per cent of the United States’ private sector output.[[24]](#endnote-24) A product such as Square Reader was uniquely able to target sellers not included in these statistics—such as artists, farmers’ market vendors, and freelancers—who could use Square’s software and hardware to begin accepting credit card payments with minimal upfront costs or none at all.

In 2012, Starbucks Corporation (Starbucks) invested $25 million in Square’s Series D round of financing and chose Square to process all credit card transactions at its 7,000 U.S. locations. Starbucks chief executive officer, Howard Schultz, stated that Square was “the fastest-growing opportunity we’ve ever seen in terms of customer acceptance.”[[25]](#endnote-25) However, in 2013, Square reportedly lost $25 million from the Starbucks agreement, which ultimately provided disadvantageous terms for Square, and it was expected to lose similar amounts until the contract expired in 2015.[[26]](#endnote-26)

By September of 2014, Square’s primary business model—charging a 2.75 per cent fee for all payments processed using its credit card reader, which plugged into the headphone jack of smartphones and tablets—was under attack. PayPal Holdings Inc. introduced a similar device with a 2.5 per cent fee in March of 2012, and in August 2014, Amazon.com launched a competing device with a temporary introductory fee of 1.75 per cent.[[27]](#endnote-27) One analyst estimated that Square payed about $1.82 of its $2.75 fee on each $100 transaction to process the transaction and kept about $0.93, so price competition could erode the already small profit margin.[[28]](#endnote-28)

In search of more profitable lines of business, Square was in the early stages of testing complementary product offerings. In November 2013, it launched a new service called Square Cash, which allowed anyone to send and receive money over email or via a mobile application.[[29]](#endnote-29) However, one analyst estimated that Square lost $0.25 on each Square Cash transaction.[[30]](#endnote-30)

Along with Square Cash, the company had started several more products by September 2014, including Square Capital, which provided cash advances to merchants in exchange for a percentage of future sales; Square Order, an application that allowed customers to pre-order at restaurants; Square Market, a tool that helped merchants develop online stores; Appointments, an online scheduling tool; Feedback, which allowed customers to privately message a business with feedback about their experience; Dashboard, which provided snapshots of a company’s activities; and Open Tickets, an online tool for restaurants to manage reservations.[[31]](#endnote-31)

By September 2014, one observer noted that the rapid creation of new businesses in the face of cutthroat competition in the payment-processing market “makes it easy to wonder whether the company is in panic mode.”[[32]](#endnote-32)

burn Rate

In May 2014, well-known venture capital investor Fred Wilson, of Union Square Ventures, voiced concerns in a blog post commenting on Square’s “burn rate”—the rate it used cash to finance its unprofitable operations.[[33]](#endnote-33) He suggested that the “combination of sky high valuations, equally high burn rates, and a disappearing IPO market” was a “valuation trap,”[[34]](#endnote-34) and argued that, given Square’s multi-billion dollar valuation in its last financing round nearly two years before, the company might face challenges in finding investors to provide additional capital at a higher valuation to sustain the business.

Square ended the June quarter of 2014 with $139 million in cash (see Exhibit 4). After burning through $91 million, before financing activities, in 2012 and $71 million in 2013, the company was on track to use $138 million in cash in 2014 as it continued to push for aggressive growth and invest in new projects. By the summer of 2014, Square had 900 employees, 300 of whom had been hired in the previous year.[[35]](#endnote-35)

Roelof Botha, a partner at Series B-1 lead investor Sequoia Capital Operating LLC and a member of Square’s board of directors, stated in May 2014 that “We could be profitable tomorrow morning if we said, ‘Let’s not spend money to keep growing.’”[[36]](#endnote-36) Addressing concerns that Square’s high valuation might force it to seek financing rounds at lower valuations, Botha commented, “Do I worry with regards to Square? No.”[[37]](#endnote-37)

Series e

Square ultimately decided to address its need for capital by seeking $150 million in new financing from the venture capital market.[[38]](#endnote-38) It offered investors the following terms: 9,700,289 shares of Series E preferred stock at a price of $15.46345—a 40 per cent increase over the $11.01402 price of the preferred D Series issued in 2012 and a 7,050 per cent increase over the $0.21627 price in the 2009 A Series offering (see Exhibit 5). While many of the terms were similar to those offered in its previous rounds, there were some differences.

Like those in the previous A, B-1, B-2, C, and D rounds, the Series E shares were convertible into common stock at the option of the holder on a one-for-one basis, and they had a “1× liquidation preference,” such that investors could receive their initial investment before any payment was made to common stockholders in the event of any “liquidation or winding up”[[39]](#endnote-39) of the company, if the investors chose not to convert their shares into common stock.[[40]](#endnote-40) All of the classes were non-participating, so they could choose to receive their liquidation preference or convert their shares into equity, but they could not do both.[[41]](#endnote-41) While the Series E shareholders would be entitled to a number of votes equal to the number of shares of common stock into which the preferred stock was convertible on general voting issues, the shareholders would not be able to elect an exclusive member of the board of directors—something the Series B and C shareholders were able to do.[[42]](#endnote-42)

The most striking terms related to anti-dilution provisions commonly referred to as *ratchets*. Two types of ratchets were included. One, known as a weighted-average ratchet*,* was common; a survey in the first quarter of 2014 by venture capital law firm Fenwick and West LLP found that 95 per cent of all offerings had similar provisions.[[43]](#endnote-43) This provision stipulated that if the company issued shares in a non-public offering at a price lower than $15.46345, the conversion price would be lowered to the ratio of the total value of issue proceeds measured prior to this offering divided by the total number of shares outstanding measured after this offering.

The other ratchet was an IPO ratchet, which specified that in the event of a public offering for less than $18.55614, the conversion price would be adjusted such that the Series E preferred shares were convertible into “(A) the number of shares of common stock issuable on conversion of such share of Series E preferred stock; and (B) an additional number of shares of common stock equal to (x) the difference between $18.55614 and the public offering price (y) divided by the public offering share price.”[[44]](#endnote-44)

Goldman Sachs and Sapphire Ventures, as well as any other investors offered these terms, had only a limited amount of time to consider the terms.[[45]](#endnote-45) The offer price of $15.46345 was apparently designed to reach a $6 billion valuation,[[46]](#endnote-46) but what if the company wasn’t able to exit at this value? What if the firm ended up being sold or taken public at a valuation closer to the $3 billion range that had reportedly been offered by Apple? Investors in previous rounds also had reason to be concerned about the effect of the ratchets and liquidation preferences on their returns in the event of an eventual IPO or sale.

Exhibit 1: Square, Inc. series d Capitalization Table (in US$)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Security** | **Lead Investor** | **Issue Date** | **Shares**  **Issued** | **Price** | **Issue Value** | **Common Shares After Conversion** | **Percent of Common Stock** |
| Series A Preferred | Khosla Ventures | 2009-11-1 | 46,700,710 | $0.21627 | $10,100,000 | 46,700,710 | 16 |
| Series B-1 Preferred | Sequoia Capital | 2011-1-10 | 13,893,330 | $0.71977 | $10,000,000 | 13,893,330 | 5 |
| Series B-2 Preferred | Kleiner Perkins | 2011-6-28 | 27,030,040 | $0.95368 | $25,778,000 | 27,030,040 | 9 |
| Series C Preferred | Richard Branson | 2011-12-9 | 17,764,230 | $5.79817 | $103,000,000 | 17,764,230 | 6 |
| Series D Preferred | -- | 2012-9-17 | 20,164,210 | $11.01402 | $222,089,000 | 20,164,210 | 7 |
| Common Stock | -- | -- | 171,341,818 | -- | -- | 171,341,818 | 58 |
| **Total** |  |  |  |  | **$370,967,000** | **296,894,338** | **100** |

Sources: Calculated by the author based on United States Securities and Exchange Commission, “Square, Inc. Restated Certificate of Incorporation,” accessed May 22, 2017, www.sec.gov/Archives/edgar/data/1512673/000119312515343733/d937622dex31.htm; United States Securities and Exchange Commission, “Square, Inc. Form S-1,” accessed May 22, 2017, www.sec.gov/Archives/edgar/data/1512673/000119312515343733/d937622ds1.htm; “Square Overview,” Crunchbase, accessed May 22, 2017, www.crunchbase.com/funding-round/c59de6486d4c17f356e93ced97d2c0d1.

Exhibit 2: venture-backed firms with valuations above $1 billion, July 2014 (in US$)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Company** | **Valuation (billions)** | **Total Equity Funding (millions)** | **Last Valuation** | **Country** |
| Uber Technologies Inc. | $18.2 | $1,600 | June-14 | United States |
| Airbnb Inc. | $10.0 | $800 | April-14 | United States |
| Xiaomi Inc. | $10.0 | $347 | August-13 | China |
| Dropbox, Inc. | $10.0 | $607 | January-14 | United States |
| Palantir Technologies Inc. | $9.3 | $898,000 | September-13 | United States |
| Theranos Inc. | $9.0 | $750 | February-14 | United States |
| Snap Inc. | $7.0 | $130 | May-14 | United States |
| Flipkart Internet Private Limited | $7.0 | $1,800 | July-14 | India |
| Pinterest, Inc. | $5.0 | $764 | May-14 | United States |
| Zalando SE | $4.9 | $49 | October-13 | Germany |
| Space Exploration Technologies Corp. | $4.8 | $115 | December-12 | United States |
| Cloudera Inc. | $4.1 | $670 | March-14 | United States |
| Spotify AB | $4.0 | $521 | November-13 | Sweden |
| Meituan.com | $4.0 | $370 | May-14 | China |
| Didi Chuxing | $3.5 | $828 | December-13 | China |
| Jawbone | $3.3 | $531 | February-14 | United States |
| Square, Inc. | $3.3 | $371 | September-12 | United States |
| Lending Club Corportion | $3.1 | $193 | April-14 | United States |
| Fanatics, Inc. | $3.1 | $320 | June-13 | United States |
| VANCL Limited | $3.0 | $512 | December-11 | China |
| Pure Storage, Inc. | $3.0 | $530 | June-14 | United States |
| Legendary Pictures, LLC | $3.0 | $650 | January-14 | Germany |
| Bloom Energy | $2.9 | $1,200 | September-11 | United States |
| Box | $2.4 | $533 | June-14 | United States |
| Trendy International Group Co., Ltd. | $2.0 | $200 | February-12 | China |
| Dianping.com | $2.0 | $569 | February-14 | China |
| Wayfair, Inc. | $1.9 | $359 | March-14 | United States |
| Stripe | $1.8 | $120 | January-14 | United States |
| Intarcia Therapeutics, Inc. | $1.8 | $598 | March-14 | United States |
| DocuSign Inc. | $1.6 | $237 | March-14 | United States |
| Mobileye | $1.5 | $487 | June-13 | Israel |
| Mu Sigma | $1.5 | $195 | February-13 | United States |
| Deem Co. | $1.4 | $474 | September-11 | United States |
| Klarna Bank AB | $1.4 | $299 | March-14 | Sweden |
| Jasper Technologies, Inc. | $1.4 | $204 | April-14 | United States |
| Sunrun Inc. | $1.3 | $295 | March-14 | United States |
| Fab Commerce and Design, Inc. | $1.2 | $335 | June-13 | United States |
| MongoDB, Inc. | $1.2 | $231 | October-13 | United States |
| New Relic, Inc. | $1.2 | $197 | April-14 | United States |
| Automattic, Inc. | $1.2 | $190 | May-14 | United States |
| Beats Electronics | $1.1 | $560 | September-14 | United States |
| LaShou Group Inc. | $1.1 | $166 | March-11 | China |
| Gilt Groupe, Inc. | $1.1 | $275 | April-11 | United States |
| Actifio Inc. | $1.1 | $208 | March-14 | United States |
| Hortonworks, Inc. | $1.1 | $254 | March-14 | United States |

Exhibit 2: venture-backed firms with valuations above $1 billion, July 2014 (in US$) (Continued)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Proteus Digital Health, Inc. | $1.1 | $354 | June-14 | United States |
| AppDynamics LLC. | $1.1 | $177 | July-14 | United States |
| Evernote Corporation | $1.0 | $302 | May-12 | United States |
| Cloudflare, Inc. | $1.0 | $72 | December-12 | United States |
| Good Technology | $1.0 | $388 | April-13 | United States |
| Mode Media, Inc. | $1.0 | $230 | August-13 | United States |
| Shopify Inc. | $1.0 | $122 | December-13 | Canada |
| Avast Software s.r.o. | $1.0 | $100 | February-14 | Czech Republic |
| Eventbrite | $1.0 | $200 | March-14 | United States |
| TangoMe, Inc. | $1.0 | $367 | March-14 | United States |
| Credit Karma, Inc. | $1.0 | $194 | March-14 | United States |
| InsideSales.com | $1.0 | $139 | April-14 | United States |
| Snapdeal | $1.0 | $411 | May-14 | India |
| Kupang Co., Ltd. | $1.0 | $118 | May-14 | South Korea |
| Mogujie.com Hangzhou Kuaua Network Co., Ltd. | $1.0 | $200 | June-14 | China |
| NUTANIX | $1.0 | $172 | December-13 | Sweden |
| Lookout, Inc. | $1.0 | $134 | September-13 | United States |

Source: Scott Austin, Chris Canipe, and Sarah Slobin, “The Billion Dollar Startup Club,” *Wall Street Journal*, February 18, 2015, accessed May 21, 2017, graphics.wsj.com/billion-dollar-club.

Exhibit 3: Square, Inc. gross payment volume and ebitda (in thousands of US$)

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Year Ended**  **2012** | **December 31**  **2013** | **Six Months Ended**  **June 30, 2014** |
| Gross Payment Volume | $6,518,000 | $14,819,000 | $10,395,000 |
| Adjusted Revenue | $67,627 | $160,144 | $119,189 |
| Adjusted EBITDA | −$70,579 | −$51,530 | −$44,002 |

Note: EBITDA = earnings before interest, taxes, depreciation, and amortization; Gross payment volume was the total dollar amount of all card payments processed by sellers using Square, net of refunds, excluding card payments processed for Starbucks and activity related to the Square Cash peer-to-peer payments service; Adjusted revenue was a non-GAAP (generally accepted accounting principles) financial measure defined as total net revenue less transaction costs, adjusted to eliminate the effect of activity under the payment-processing agreement with Starbucks; Adjusted EBITDA was a non-GAAP financial measure that represented the net loss, adjusted to eliminate the effect of Starbucks transaction revenue and Starbucks transaction costs, before interest income and expense, provision, or benefit for income taxes, depreciation, amortization, share-based compensation expense, other income and expense, the gain or loss on the sale of property and equipment, and impairment of intangible assets.

Source: United States Securities and Exchange Commission, “Square, Inc. Form S-1,” accessed May 22, 2017, www.sec.gov/Archives/edgar/data/1512673/000119312515343733/d937622ds1.htm#fin937622\_30.

Exhibit 4: Square, Inc. Statements of cash flows (in thousands of US$)

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Year Ended**  **2012** | **December 31**  **2013** | **Six Months Ended**  **June 30, 2014** |
| **Cash flows from operating activities:** |  | | |
| Net loss | −85,199 | −104,493 | −79,355 |
| **Adjustments to reconcile net loss to cash used in operating activities:** |  | | |
| Depreciation and amortization | 3,579 | 8,272 | 7,713 |
| Share-based compensation | 8,114 | 14,658 | 14,321 |
| Starbucks share–based incentive | 1,999 | — | — |
| Excess tax benefit from share-based payment activity | — | — | — |
| Provision for transaction losses | 10,512 | 15,080 | 7,983 |
| Provision for uncollectible receivables from merchant cash advances | — | — | 1,285 |
| Deferred tax assets | — | — | −933 |
| Impairment of intangible assets | — | 2,430 | — |
| **Changes in operating assets and liabilities:** |  |  |  |
| Settlements receivable | −19,854 | −27,704 | −38,039 |
| Merchant cash advance receivable | — | — | −26,368 |
| Other current assets | −7,605 | −2,384 | −6,299 |
| Other assets | −1,615 | 2,668 | −1,593 |
| Accounts payable | 2,028 | −942 | 1,241 |
| Customers payable | 47,101 | 21,148 | 49,413 |
| Charge-offs and recoveries to accrued transaction losses | −7,335 | −13,613 | −6,881 |
| Accrued expenses | 3,909 | 9,912 | 9,352 |
| Other current liabilities | 1,433 | 103 | 1,012 |
| Other liabilities | 8 | 14,288 | 16,415 |
|  | | | |
| Net cash used in operating activities | −42,925 | −60,577 | −50,733 |
|  | | | |
| **Cash flows from investing activities:** |  | | |
| Purchase of property and equipment | −13,033 | −47,931 | −14,640 |
| Payment for acquisition of intangible assets | — | — | −400 |
| (Increases) decreases in restricted cash | −34,758 | 40,000 | −3,402 |
| Business acquisitions (net of cash acquired) | — | −2,872 | 71 |
|  | | | |
| Net cash used in investing activities | −47,791 | −10,803 | −18,371 |
|  | | | |
| Net increase (decrease) in cash before financing activities | −90,716 | −71,380 | −69,104 |
|  | | | |
| **Cash flows from financing activities:** |  | | |
| Proceeds from issuance of preferred stock, net | 221,754 | 1 | — |
| Principal payments on capital lease obligation | −190 | — | — |
| Proceeds from debt | — | — | 30,000 |
| Proceeds from the exercise of stock options | 5,616 | 18,906 | 11,277 |
| Excess tax benefit from share-based payment award | — | — | — |
|  | | | |
| Net cash provided by financing activities | 227,180 | 18,907 | 41,277 |
|  | | | |
| Effect of foreign exchange rate on cash and cash equivalents | −4 | −760 | 214 |
|  | | | |
| Net increase (decrease) in cash and cash equivalents | 136,460 | −53,233 | −27,613 |
| Cash and cash equivalents, beginning of period | 82,949 | 219,409 | 166,176 |
|  | | | |
| Cash and cash equivalents, end of period | 219,409 | 166,176 | 138,563 |

Source: United States Securities and Exchange Commission, “Square, Inc. Form S-1,” accessed May 22, 2017, www.sec.gov/Archives/edgar/data/1512673/000119312515343733/d937622ds1.htm#fin937622\_30.

Exhibit 5: Summary of Key Terms for Square, Inc. Series E Preferred Stock

**I. SUMMARY**

**Issuer:** Square, Inc. (the “**Company**”)

**Total Amount of Financing:** $150,000,000

**Security:** Series E Preferred Stock

**Number of Shares Offered:** 9,700,289

**Price per share:** $15.46345

**II. TERMS OF THE SERIES E PREFERRED STOCK**

**Conversion**

At the discretion of the stockholder, each share of Series E preferred stock is convertible into one share of common stock. The shares will automatically be converted into common stock if the Company either undertakes an initial public stock offering of at least $50 million or if the holders of a majority of the then-outstanding Series E preferred stock shares of Series E preferred stock vote for a mandatory conversion.

The Series E preferred stock can initially be converted at a price of $15.46345. If the Company issues new non-public shares at a price below $15.46345, then the conversion price will be lowered to the ratio of the total value of issue proceeds measured prior to this offering divided by the total number of shares outstanding measured after this offering.

If the Company issues new public shares at a price below $15.46345, the conversion price will be adjusted such that the Series E preferred shares are convertible into the original number of shares plus an additional number of shares equal to the difference between $18.55614 and the issue price, divided by the issue price.

**Voting**

Series E preferred stockholders possess a number of votes equal to the number of common stock shares that their shares are convertible into.

At each election of the Board of Directors: Common Stockholders will elect four members; Series B Preferred Stockholders will elect one member; Series C Preferred Stockholders will elect one member; and all shareholders, on an as-converted basis, will elect the remaining members.

**Liquidation Preference**

If the Company is liquidated or wound up, the Series E preferred shareholders will be entitled to receive $15.46345 per share prior to any distributions to common stockholders and other preferred stockholders. Following the payment to the Series E preferred shareholders, the other convertible preferred stockholders will be entitled to receive $0.21627 per share for Series A, $0.71977 per share for Series B-1, $0.95369 per share for Series B-2, $5.79817 per share for Series C, and $11.014 per share for Series D. The common stockholders will then receive the remaining assets.

**Common Stock**

Common stock is subordinated to preferred stock in the payment of dividends or liquidation proceeds and common stockholders have no preemptive or subscriptions rights. As of September 15, 2014, there were 370,000,000 common stock shares authorized and 252,758,922 fully diluted shared issued and outstanding.

Source: United States Securities and Exchange Commission, “Square, Inc. Restated Certificate of Incorporation,” accessed May 22, 2017, www.sec.gov/Archives/edgar/data/1512673/000119312515343733/d937622dex31.htm; United States Securities and Exchange Commission, “Square, Inc. Form S-1,” accessed May 22, 2017, www.sec.gov/Archives/edgar/data/1512673/000119312515343733/d937622ds1.htm.

ENDNOTES

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Square, Inc. or any investors or employees. [↑](#endnote-ref-1)
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