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## TECHNOLOGY

# Mobile-Payments Startup Square Discusses Possible Sale

*Company Faces Wider Loss, Less Cash; Google Considered Potential Acquisition*

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With losses widening and cash shrinking, representatives of mobile-payments startup Square Inc. have discussed a possible sale to several deeper-pocketed rivals, according to people familiar with the matter.

Google Inc. discussed a possible acquisition of Square earlier this year, according to three people familiar with the matter. Those talks followed a meeting in 2012 between top Google and Square executives to discuss a possible takeover, according to two people familiar with the matter. It isn't clear whether the talks are continuing.

Square also had informal discussions about a deal with Apple Inc. and eBay Inc. 's PayPal in the past, according to people familiar with those situations. Those conversations never developed into serious talks.

Square recorded a loss of roughly \$100 million in 2013, broader than its loss in 2012, according to two people familiar with the matter.

The five-year-old company paid out roughly \$110 million more in cash last year than it took in, according to two people familiar with the matter. Over the past three years, the startup has consumed more than half of the roughly \$340 million it has raised from at least four rounds of equity financing since 2009, two people familiar with the company's performance said.

A spokesman for Square said, "We are not, nor have we ever been in acquisition talks with Google."

He added, "While we appreciate that Square may be an attractive target for some companies, we have never seriously considered selling to anyone



Jack Dorsey

or been in any talks to do so."

A spokesman for Paypal said, "We did not have acquisition talks with Square."

Square would likely fetch billions of dollars in a sale.

Co-founder and Chief Executive Jack Dorsey is a well-known Silicon Valley entrepreneur with a flair for design. Mr. Dorsey also was a co-founder of Twitter Inc., which conducted an initial public offering of stock in November.

Over the years, the rising profiles of its brand and of Mr. Dorsey have helped Square raise money at larger valuations. Square insiders sold shares earlier this year on the secondary market at a price that valued the company at roughly \$5.2 billion, according to people familiar with the offering.

Square's square-shaped credit-card readers are used by nearly one million merchants, who attach them to their smartphones or tablets, allowing them to accept credit or debit-card payments anywhere. Last year, the startup processed more than \$20 billion in transactions, yielding revenue of about \$550 million, according to three people familiar with the company's performance.

But Square's business yields razor-thin profit margins, if any. Square typically charges merchants 2.75% to swipe credit cards through its reader, according to the company's website. About four-fifths of that money is spent on fees to payment networks like Visa and MasterCard, other financial intermediaries and fraud costs.



Square

During the first quarter of 2014, a Square executive told a potential acquirer that the company had nine months before it would hit a predetermined "cushion" of funds set aside as a last resort, according to a person with direct knowledge of the conversation. The figure was separately confirmed by someone close to Square.

This month, Square secured a credit facility of more than \$100 million from a group of five banks led by Goldman Sachs Group Inc., giving the company more financial flexibility, two people said at the time.

Square's financial performance might be narrowing the company's options. Last year, it explored an IPO with banks including Goldman Sachs and Morgan Stanley. Those discussions were at least

temporarily suspended, two people said.

"Square looks a lot like a company in transition," said Rick Oglesby, of consulting firm Double Diamond Payments Research. "It had very strong success in penetrating the micro-merchant market, but that market isn't a terribly profitable one, so Square needs to go up market to find the real money."

A partnership with Starbucks Corp. , announced in late 2012, introduced Square to millions of coffee drinkers and gave the startup billions of dollars

in new transactions. But Square's fee on Starbucks transactions amounted to just over 2% in 2013, according to two people familiar with the company's financial statements. That left Square with a loss of at least \$20 million from the Starbucks deal last year, according to these people. Starbucks declined to comment.

Square's gross margin, the portion of revenue remaining after paying processors and covering other costs like fraud, fell to 21% in 2013, from 27% in 2012, according to a copy of Square's results viewed by The Wall Street Journal.

Square has been adding services that could eventually be more profitable than its main payments business. In the past 12 months it began Square Cash, which helps people send money to friends via email, and Square Market, a digital marketplace for small businesses. It also offers Square Stand to help stores track customer data and is testing a lending program for merchants who have difficulty getting a bank loan.



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"We don't see ourselves building a payments company," Mr. Dorsey told Bloomberg TV last fall. "We see ourselves building a commerce company."

Talks between Google and Square resumed during recent months, three people familiar with the matter said, but it isn't clear whether either side is still pursuing a deal. Technology website The Information reported earlier this month that Google recently considered a purchase of Square, but said the companies aren't currently discussing a deal.

Mr. Oglesby, the consultant, said it is "not at all surprising that Google and Square have been discussing combining forces," because their payment businesses are complementary.

Google Wallet, the Internet company's payments business, has signed up a lot of consumers through its Google Play app store, but has few brick-and-mortar merchants, Mr. Oglesby said.

Square, meanwhile, has merchants but has fewer customers enrolled in its digital wallet virtual-payment account, he added.

—Greg Bensinger, Daisuke Wakabayashi and Rolfe Winkler contributed to this article.

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