

TWITTER, INC.  
Form 10-Q  
May 08, 2014

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, 2014

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 001-36164

Twitter, Inc.

(Exact name of registrant as specified in its charter)

Delaware 20-8913779  
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

1355 Market Street, Suite 900

San Francisco, California 94103

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(Address of principal executive offices and Zip Code)

(415) 222-9670

(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 the definition 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 a 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

The number of shares of the registrant's common stock outstanding as of April 30, 2014 was 589,938,826.



## 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, as Section 21E of the Securities Exchange Act of 1934, as amended, which statements 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,” “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 ability to attract and retain users and increase the level of engagement of our users;
- our ability to develop or acquire new products and services, improve our existing products and services and increase the value of our products and services;
- our ability to attract advertisers to our platform and increase the amount that advertisers spend with us;
- our expectations regarding our user growth rate and the usage of our mobile applications;
- our ability to increase our revenue and our revenue growth rate;
- our ability to improve user monetization, including advertising revenue per timeline view;
- our future financial performance, including trends in cost per ad engagement, revenue, cost of revenue, operating expenses and income taxes;
- the effects of seasonal trends on our results of operations;
- the sufficiency of our cash and cash equivalents and cash generated from operations to meet our working capital and capital expenditure requirements;
- our ability to timely and effectively scale and adapt our existing technology and network infrastructure;
- our ability to successfully acquire and integrate companies and assets; and
- our ability to successfully enter new markets and manage our international expansion.

We caution you that the foregoing list may not contain all of the forward-looking statements made in this Quarterly Report on Form 10-Q.

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations and prospects. 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. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. We cannot assure you that the results, events and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements.

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. 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. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.



## NOTE REGARDING KEY METRICS

We review a number of metrics, including monthly active users, or MAUs, timeline views, timeline views per MAU and advertising revenue per timeline view, to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans and make strategic decisions. See the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operation—Key Metrics” for a discussion of how we calculate MAUs, timeline views, timeline views per MAU and advertising revenue per timeline view.

The numbers of active users and timeline views presented in this Quarterly Report on Form 10-Q are based on internal company data. While these numbers are based on what we believe to be reasonable estimates for the applicable period of measurement, there are inherent challenges in measuring usage and user engagement across our large user base around the world. For example, there are a number of false or spam accounts in existence on our platform. In 2013, we performed an internal review of a sample of accounts and estimated that false or spam accounts represented less than 5% of our MAUs. In making this determination, we applied significant judgment, so our estimation of false or spam accounts may not accurately represent the actual number of such accounts, and the actual number of false or spam accounts could be higher than we have estimated. We are continually seeking to improve our ability to estimate the total number of spam accounts and eliminate them from the calculation of our active users. For example, we made an improvement in our spam detection capabilities in the second quarter of 2013 and suspended a large number of accounts. Spam accounts that we have identified are not included in the active user numbers presented in this Quarterly Report on Form 10-Q. We treat multiple accounts held by a single person or organization as multiple users for purposes of calculating our active users because we permit people and organizations to have more than one account. Additionally, some accounts used by organizations are used by many people within the organization. As such, the calculations of our active users may not accurately reflect the actual number of people or organizations using our platform.

Our metrics are also affected by applications that automatically contact our servers for regular updates with no user action involved, and this activity can cause our system to count the users associated with such applications as active users on the day or days such contact occurs. In the three months ended March 31, 2014, approximately twelve percent of all active users used applications that have the capability to automatically contact our servers for regular updates. This increased slightly from the prior period as a result of slightly higher user traffic from our third party clients. As such, the calculations of MAUs presented in this Quarterly Report on Form 10-Q may be affected as a result of automated activity.

In addition, our data regarding user geographic location for purposes of reporting the geographic location of our MAUs is based on the IP address associated with the account when a user initially registered the account on Twitter. The IP address may not always accurately reflect a user’s actual location at the time such user engaged with our platform.

We present and discuss timeline views in 2012, but we did not track all of the timeline views on our mobile applications during the three months ended March 31, 2012. We have included in this Quarterly Report on Form 10-Q estimates for actual timeline views in the three months ended March 31, 2012 for the mobile applications we did not track. In addition, we have estimated a small percentage of the timeline views in the three months ended September 30, 2013 to account for certain timeline views that were logged incorrectly during the quarter as a result of a product update. We believe these estimates to be reasonable, but actual numbers could differ from our estimates. Further, timeline views in 2012 exclude an immaterial number of timeline views for our mobile applications, certain of which were not fully tracked until June 2012.

We regularly review and may adjust our processes for calculating our internal metrics to improve their accuracy. Our measures of user growth and user engagement may differ from estimates published by third parties or from similarly-titled metrics of our competitors due to differences in methodology.



## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

## TWITTER, INC.

## CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

(Unaudited)

	March 31, 2014	December 31, 2013
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$960,755	\$841,010
Short-term investments	1,215,840	1,393,044
Accounts receivable, net of allowance for doubtful accounts of \$2,633 and \$2,020 as of March 31, 2014 and December 31, 2013, respectively	237,860	247,328
Prepaid expenses and other current assets	90,925	93,297
<b>Total current assets</b>	<b>2,505,380</b>	<b>2,574,679</b>
Property and equipment, net	383,272	332,662
Intangible assets	71,451	77,627
Goodwill	363,477	363,477
Other assets	32,629	17,795
<b>Total assets</b>	<b>\$3,356,209</b>	<b>\$3,366,240</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$19,714	\$27,994
Accrued and other current liabilities	151,284	110,310
Capital leases, short-term	90,253	87,126
<b>Total current liabilities</b>	<b>261,251</b>	<b>225,430</b>
Capital leases, long-term	102,534	110,520
Deferred and other long-term tax liabilities, net	29,574	59,500
Other long-term liabilities	26,004	20,784
<b>Total liabilities</b>	<b>419,363</b>	<b>416,234</b>
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common stock, \$0.000005 par value-- 5,000,000 shares authorized; 589,298 and 569,922 shares issued and outstanding as of March 31, 2014 and December 31, 2013, respectively	3	3
Additional paid-in capital	4,064,127	3,944,952
Accumulated other comprehensive loss	(296 )	(323 )

Accumulated deficit	(1,126,988)	(994,626 )
Total stockholders' equity	2,936,846	2,950,006
Total liabilities and stockholders' equity	\$3,356,209	\$3,366,240

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

TWITTER, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended March 31,	
	2014	2013
Revenue	\$250,492	\$114,343
Costs and expenses		
Cost of revenue	85,503	41,255
Research and development	149,391	47,574
Sales and marketing	106,235	32,439
General and administrative	38,734	16,982
Total costs and expenses	379,863	138,250
Loss from operations	(129,371)	(23,907)
Interest income (expense), net	(2,567 )	(1,233 )
Other income (expense), net	798	(1,529 )
Loss before income taxes	(131,140)	(26,669 )
Provision for income taxes	1,222	357
Net loss	\$(132,362)	\$(27,026)
Net loss per share attributable to common stockholders:		
Basic	\$(0.23 )	\$(0.21 )
Diluted	\$(0.23 )	\$(0.21 )
Weighted-average shares used to compute net loss per share attributable		
to common stockholders:		
Basic	570,205	127,456
Diluted	570,205	127,456

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

TWITTER, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2014	2013
Net loss	\$(132,362)	\$(27,026)
Other comprehensive income (loss):		
Unrealized loss on investments in available-for-sale securities, net of tax	(31 )	(13 )
Foreign currency translation adjustment	58	(91 )
Net change in accumulated other comprehensive loss	27	(104 )
Comprehensive loss	\$(132,335)	\$(27,130)

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



TWITTER, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2014	2013
Cash flows from operating activities		
Net loss	\$(132,362)	\$(27,026 )
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	39,951	22,730
Stock-based compensation expense	126,369	12,922
Provision for bad debt	778	226
Deferred income tax benefit	10	(436 )
Non-cash acquisition-related costs	—	566
Amortization of investment premium and other	2,255	1,649
Changes in assets and liabilities, net of assets acquired and liabilities assumed from acquisitions:		
Accounts receivable	8,861	(972 )
Prepaid expenses and other assets	(30,415 )	(3,724 )
Accounts payable	(303 )	(4,420 )
Accrued and other liabilities	27,539	1,100
Net cash provided by operating activities	42,683	2,615
Cash flows from investing activities		
Purchases of property and equipment, net of proceeds from sales	(49,620 )	(11,622 )
Purchases of marketable securities	(470,750)	(140,768)
Proceeds from maturities of marketable securities	477,333	70,191
Proceeds from sales of marketable securities	168,138	6,000
Restricted cash	(12,138 )	(1,125 )
Business combinations, net of cash acquired	—	178
Net cash provided by (used in) investing activities	112,963	(77,146 )
Cash flows from financing activities		
Taxes paid related to net share settlement of equity awards	(15,140 )	—
Repayments of capital lease obligations	(21,521 )	(14,658 )
Proceeds from exercise of stock options and sales of restricted stock to employees at fair value,		
net of repurchase	1,350	4,739
Payments of offering costs	(1,162 )	-
Net cash used in financing activities	(36,473 )	(9,919 )
Net increase (decrease) in cash and cash equivalents	119,173	(84,450 )
Foreign exchange effect on cash and cash equivalents	572	(630 )
Cash and cash equivalents at beginning of period	841,010	203,328
Cash and cash equivalents at end of period	\$960,755	\$118,248
Supplemental disclosures of non-cash investing and financing activities		

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Common and convertible preferred stock issued in connection with acquisitions	\$—	\$105,467
Equipment purchases under capital leases	\$16,957	\$29,986
Changes in accrued equipment purchases	\$11,051	\$3,889

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

TWITTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Description of Business and Summary of Significant Accounting Policies

Twitter, Inc. (“Twitter” or the “Company”) was incorporated in Delaware in April 2007, and is headquartered in San Francisco, California. Twitter is a public platform where any user can create a Tweet and any user can follow other users. Each Tweet is limited to 140 characters of text, but can also contain rich media, including photos, videos and applications.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). The unaudited interim consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and reflect, in management’s opinion, all adjustments of a normal, recurring nature that are necessary for the fair statement of the Company’s financial position, results of operations and cash flows for the interim periods, but are not necessarily indicative of the results expected for the full fiscal year or any other period.

The accompanying interim consolidated financial statements and these related notes should be read in conjunction with the consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013.

Use of Estimates

The preparation of the Company’s consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, as well as related disclosure of contingent assets and liabilities. Actual results could differ materially from the Company’s estimates. To the extent that there are material differences between these estimates and actual results, the Company’s financial condition or operating results will be affected. The Company bases its estimates on past experience and other assumptions that the Company believes are reasonable under the circumstances, and the Company evaluates these estimates on an ongoing basis.

Recent Accounting Pronouncements

In July 2013, the FASB issued a new accounting standard update on the financial statement presentation of unrecognized tax benefits. The new guidance provides that a liability related to an unrecognized tax benefit would be presented as a reduction of a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward, if such settlement is required or expected in the event the uncertain tax position is disallowed. The Company adopted this guidance prospectively for unrecognized tax benefits as of January 1, 2014. The adoption of this guidance resulted in a \$15.8 million decrease in net deferred tax assets and the related liability for unrecognized tax benefits.



## Note 2. Cash, Cash Equivalents and Short-term Investments

Cash, cash equivalents and short-term investments consist of the following (in thousands):

	March 31, 2014	December 31, 2013
<b>Cash and cash equivalents:</b>		
Cash	\$223,173	\$164,135
Money market funds	372,341	229,529
U.S. government and agency securities including treasury bills	220,252	251,593
Corporate notes and commercial paper	144,989	195,753
Total cash and cash equivalents	\$960,755	\$841,010
<b>Short-term investments:</b>		
U.S. government and agency securities including treasury bills	\$591,668	\$785,536
Corporate notes, certificates of deposit and commercial paper	624,172	607,508
Total short-term investments	\$1,215,840	\$1,393,044

The following tables summarize unrealized gains and losses related to available-for-sale securities classified as short-term investments on the Company's consolidated balance sheets (in thousands):

	March 31, 2014			
	Gross Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Aggregated Estimated Fair Value
US Government and agency securities including				
treasury bills	\$591,631	\$ 47	\$ (10 )	\$591,668
Corporate notes, certificates of deposit and				
commercial paper	624,323	19	(170 )	624,172
Total available-for-sale securities classified as				
short-term investments	\$1,215,954	\$ 66	\$ (180 )	\$1,215,840

	December 31, 2013			
	Gross Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Aggregated Estimated Fair Value
US Government and agency securities including				
treasury bills	\$785,535	\$ 22	\$ (21 )	\$785,536
Corporate notes, certificates of deposit and	607,590	11	(93 )	607,508

commercial paper				
Total available-for-sale securities classified as				
short-term investments	\$1,393,125	\$ 33	\$ (114 )	\$1,393,044

The available-for-sale securities classified as cash and cash equivalents on the consolidated balance sheets are not included in the tables above as the gross unrealized gains and losses were immaterial for each period; their carrying value approximates fair value because of the short maturity period of these instruments.

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The following tables show all short-term investments in an unrealized loss position for which other-than-temporary impairment has not been recognized and the related gross unrealized losses and fair value, aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position (in thousands):

	March 31, 2014					
	Less than 12 Months		12 Months or Greater		Total	
	Unrealized		Unrealized		Unrealized	
	Fair Value	Loss	Fair Value	Loss	Fair Value	Loss
US Government and agency securities						
including treasury bills	\$166,119	\$ (10 )	\$ —	\$ —	\$166,119	\$ (10 )
Corporate notes, certificates of deposit						
and commercial paper	205,690	(170 )	—	—	205,690	(170 )
Total short-term investments in an						
unrealized loss position	\$371,809	\$ (180 )	\$ —	\$ —	\$371,809	\$ (180 )

	December 31, 2013					
	Less than 12 Months		12 Months or Greater		Total	
	Unrealized		Unrealized		Unrealized	
	Fair Value	Loss	Fair Value	Loss	Fair Value	Loss
US Government and agency securities						
including treasury bills	\$230,478	\$ (21 )	\$ —	\$ —	\$230,478	\$ (21 )
Corporate notes, certificates of deposit						
and commercial paper	171,894	(93 )	—	—	171,894	(93 )
Total short-term investments in an						
unrealized loss position	\$402,372	\$ (114 )	\$ —	\$ —	\$402,372	\$ (114 )

Investments are reviewed periodically to identify possible other-than-temporary impairments. No impairment loss has been recorded on the securities included in the tables above as the Company believes that the decrease in fair value of these securities is temporary and expects to recover up to (or beyond) the initial cost of investment for these securities.