

TWITTER, INC.  
Form 10-Q  
August 11, 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 June 30, 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

Edgar Filing: TWITTER, INC. - Form 10-Q

(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 July 31, 2014 was 615,232,482.

## TABLE OF CONTENTS

	Page
<u>PART I – FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	5
<u>Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013</u>	5
<u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2014 and June 30, 2013</u>	6
<u>Consolidated Statements of Comprehensive Loss for the Three and Six Months Ended June 30, 2014 and June 30, 2013</u>	7
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2014 and June 30, 2013</u>	8
<u>Notes to Consolidated Financial Statements</u>	9
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	23
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	35
Item 4. <u>Controls and Procedures</u>	36
 <u>PART II – OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	37
Item 1A. <u>Risk Factors</u>	37
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	63
Item 5. <u>Other Information</u>	63
Item 6. <u>Exhibits</u>	63
<u>Signatures</u>	64

## 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, 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 business strategies, including our plans for growth;
- 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;
- our expectations regarding outstanding litigation;
- 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 will 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 Operations—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. We have performed an internal review of a sample of accounts and estimate 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 third-party 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. Historically we tracked and reported in this section all users who accessed Twitter through third-party applications. We have reviewed and refined our processes, however, to calculate a new metric that is comprised of only such active users who have used applications with the capability to automatically contact our servers for regular updates where there was no discernable user action involved. In the three months ended June 30, 2014, approximately 11% of all active users solely used third-party applications to access Twitter. However, only up to approximately 8.5% of all active users used third party applications that may have automatically contacted our servers for regular updates without any discernable additional user-initiated action. 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 this Quarterly Report on Form 10-Q. We have estimated a small percentage of 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 this estimate to be reasonable, but the actual numbers could differ from our estimate. 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 present and discuss our total audience based on both internal metrics and data from Google Analytics, which measures unique visitors to our properties.

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)

	June 30, 2014	December 31, 2013
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$844,976	\$841,010
Short-term investments	1,252,055	1,393,044
Accounts receivable, net of allowance for doubtful accounts of \$2,920 and \$2,020 as of June 30, 2014 and December 31, 2013, respectively	287,082	247,328
Prepaid expenses and other current assets	79,773	93,297
<b>Total current assets</b>	<b>2,463,886</b>	<b>2,574,679</b>
Property and equipment, net	467,634	332,662
Intangible assets	105,497	77,627
Goodwill	514,601	363,477
Other assets	33,199	17,795
<b>Total assets</b>	<b>\$3,584,817</b>	<b>\$3,366,240</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$23,084	\$27,994
Accrued and other current liabilities	247,547	110,310
Capital leases, short-term	99,744	87,126
<b>Total current liabilities</b>	<b>370,375</b>	<b>225,430</b>
Capital leases, long-term	101,929	110,520
Deferred and other long-term tax liabilities, net	31,929	59,500
Other long-term liabilities	33,991	20,784
<b>Total liabilities</b>	<b>538,224</b>	<b>416,234</b>
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock, \$0.000005 par value-- 5,000,000 shares authorized; 612,682 and 569,922 shares issued and outstanding as of June 30, 2014 and December 31, 2013, respectively	3	3
Additional paid-in capital	4,318,021	3,944,952
Accumulated other comprehensive income (loss)	199	(323 )



Accumulated deficit	(1,271,630)	(994,626 )
Total stockholders' equity	3,046,593	2,950,006
Total liabilities and stockholders' equity	\$3,584,817	\$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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue	\$312,166	\$139,292	\$562,658	\$253,635
Costs and expenses				
Cost of revenue	100,027	50,573	185,530	91,828
Research and development	177,095	64,263	326,486	111,837
Sales and marketing	140,261	45,258	246,496	77,697
General and administrative	44,694	18,114	83,428	35,096
Total costs and expenses	462,077	178,208	841,940	316,458
Loss from operations	(149,911)	(38,916)	(279,282)	(62,823)
Interest income (expense), net	(2,110)	(1,513)	(4,677)	(2,746)
Other income (expense), net	1,780	(1,019)	2,578	(2,548)
Loss before income taxes	(150,241)	(41,448)	(281,381)	(68,117)
Provision (benefit) for income taxes	(5,599)	777	(4,377)	1,134
Net loss	\$(144,642)	\$(42,225)	\$(277,004)	\$(69,251)
Net loss per share attributable to common stockholders:				
Basic	\$(0.24)	\$(0.32)	\$(0.47)	\$(0.53)
Diluted	\$(0.24)	\$(0.32)	\$(0.47)	\$(0.53)
Weighted-average shares used to compute net loss per share				
attributable to common stockholders:				
Basic	595,607	132,224	587,760	129,853
Diluted	595,607	132,224	587,760	129,853

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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net loss	\$(144,642)	\$(42,225)	\$(277,004)	\$(69,251)
Other comprehensive income (loss):				
Unrealized loss on investments in available-for-sale securities, net of tax	(47 )	(19 )	(78 )	(32 )
Foreign currency translation adjustment	542	127	600	36
Net change in accumulated other comprehensive loss	495	108	522	4
Comprehensive loss	\$(144,147)	\$(42,117)	\$(276,482)	\$(69,247)

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



TWITTER, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities		
Net loss	\$(277,004 )	\$(69,251 )
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	85,582	48,647
Stock-based compensation expense	284,780	35,568
Provision for bad debt	1,436	245
Deferred income tax benefit	(7,737 )	(508 )
Non-cash acquisition-related costs	307	566
Amortization of investment premium and other	359	3,045
Changes in assets and liabilities, net of assets acquired and liabilities assumed from acquisitions:		
Accounts receivable	(37,213 )	(11,349 )
Prepaid expenses and other assets	(17,229 )	(5,301 )
Accounts payable	1,407	(1,923 )
Accrued and other liabilities	89,692	9,920
Net cash provided by operating activities	124,380	9,659
Cash flows from investing activities		
Purchases of property and equipment	(94,077 )	(26,761 )
Purchases of marketable securities	(1,039,014)	(235,625)
Proceeds from maturities of marketable securities	1,009,926	220,346
Proceeds from sales of marketable securities	168,138	24,300
Restricted cash	(11,716 )	(2,412 )
Business combinations, net of cash acquired	(132,896 )	(2,322 )
Net cash used in investing activities	(99,639 )	(22,474 )
Cash flows from financing activities		
Taxes paid related to net share settlement of equity awards	(16,168 )	—
Repayments of capital lease obligations	(42,886 )	(31,068 )
Proceeds from exercise of stock options, net of repurchase	15,907	5,698
Proceeds from issuances of common stock under employee stock purchase plan	21,224	—
Payments of offering costs	(1,162 )	—
Net cash used in financing activities	(23,085 )	(25,370)