

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.

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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
Assets		
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
Total current assets	2,505,380	2,574,679
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
Total assets	\$3,356,209	\$3,366,240
Liabilities and stockholders' equity		
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
Total current liabilities	261,251	225,430
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
Total liabilities	419,363	416,234
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
Cash and cash equivalents:		
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
Short-term investments:		
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.

Note 3. Fair Value Measurements

The following tables set forth the fair value of the Company's financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2014 and December 31, 2013 based on the three-tier fair value hierarchy (in thousands):

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March 31, 2014

	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents:				
Money market funds	\$372,341	\$—	\$ —	\$372,341
Treasury bills	215,246	—	—	215,246
Commercial paper	—	142,486	—	142,486
U.S. government securities	—	5,006	—	5,006
Corporate notes	—	2,503	—	2,503
Short-term investments:				
Treasury bills	100,047	—	—	100,047
Agency securities	—	2,000	—	2,000
Commercial paper	—	271,115	—	271,115
Corporate notes	—	277,120	—	277,120
U.S. government securities	—	489,621	—	489,621
Certificates of deposit	—	75,937	—	75,937
Total	\$687,634	\$1,265,788	\$ —	\$1,953,422

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	December 31, 2013			
	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents:				
Money market funds	\$229,529	\$—	\$ —	\$229,529
Treasury bills	244,048	—	—	244,048
Commercial paper	—	194,742	—	194,742
U.S. government securities	—	7,545	—	7,545
Corporate notes	—	1,011	—	1,011
Short-term investments:				
Treasury bills	265,878	—	—	265,878
Agency securities	—	18,286	—	18,286
Commercial paper	—	272,617	—	272,617
Corporate notes	—	255,546	—	255,546
U.S. government securities	—	501,372	—	501,372
Certificates of deposit	—	79,345	—	79,345
Total	\$739,455	\$1,330,464	\$ —	\$2,069,919

Note 4. Property and Equipment, Net

The following table presents the detail of property and equipment, net for the periods presented (in thousands):

	March 31, 2014	December 31, 2013
Property and equipment, net		
Equipment	\$410,549	\$367,949
Furniture and leasehold improvements	67,418	54,965
Capitalized software	56,512	47,290
Construction in progress	48,786	29,523
Total	583,265	499,727
Less: Accumulated depreciation and amortization	(199,993)	(167,065)
Property and equipment, net	\$383,272	\$332,662

Note 5. Goodwill and Other Intangible Assets

The goodwill balance was \$363.5 million as of March 31, 2014 and December 31, 2013. For each of the period presented, gross goodwill balance equaled the net balance since no impairment charges have been recorded.

The following table presents the detail of other intangible assets for the periods presented (in thousands):

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	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
March 31, 2014:			
Patents and developed technologies	\$ 100,553	\$ (49,581)	\$ 50,972
Publisher and advertiser relationships	21,100	(3,006)	18,094
Assembled workforce	1,960	(440)	1,520
Other intangible assets	1,100	(235)	865
Total	\$ 124,713	\$ (53,262)	\$ 71,451
December 31, 2013:			
Patents and developed technologies	\$ 100,553	\$ (45,440)	\$ 55,113
Publisher and advertiser relationships	21,100	(1,248)	19,852
Assembled workforce	1,960	(300)	1,660
Other intangible assets	1,100	(98)	1,002
Total	\$ 124,713	\$ (47,086)	\$ 77,627

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Amortization expense associated with other intangible assets for the three months ended March 31, 2014 and 2013 was \$6.2 million and \$3.9 million, respectively.

Estimated future amortization expense as of March 31, 2014 is as follows (in thousands):

Remainder of 2014	\$15,095
2015	16,726
2016	13,421
2017	3,264
2018	3,264
Thereafter	19,681
Total	\$71,451

Note 6. Other Balance Sheet Components

Prepaid and other current assets

The following table presents the detail of prepaid and other current assets for the periods presented (in thousands):

	March 31, 2014	December 31, 2013
Deferred income taxes, net	\$31,382	\$62,122
Prepaid and other	59,543	31,175
Total	\$90,925	\$93,297

Accrued and other current liabilities

The following table presents the detail of accrued and other current liabilities for the periods presented (in thousands):

	March 31, 2014	December 31, 2013
Accrued compensation	\$50,829	\$29,882
Accrued equipment and maintenance	19,468	2,890
Deferred revenue	15,405	14,479
Accrued publisher payments	13,547	15,370
Accrued professional services	10,313	7,089
Accrued tax liabilities	10,073	9,515
Accrued equipment purchases under capital lease	711	2,807
Accrued other	30,938	28,278
Total	\$151,284	\$110,310

Note 7. Net Loss per Share

The Company computes net loss per share of common stock in conformity with the two-class method required for participating securities. The Company considers the shares issued upon the early exercise of stock options subject to repurchase to be participating securities, because holders of such shares have non-forfeitable dividend rights in the event a dividend is paid on common stock. Prior to their conversion to common stock, the Company also considered all series of the Company's redeemable convertible preferred stock and convertible preferred stock to be participating securities as the holders of the preferred stock were entitled to receive a noncumulative dividend on a pari passu basis in the event that a dividend was paid on common stock. The holders of all series of convertible preferred stock and the holders of early exercised shares subject to repurchase do not have a contractual obligation to share in the losses of the Company. As such, the Company's net losses for the three months ended March 31, 2014 and 2013 were not allocated to these participating securities.

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Basic net loss per share is computed by dividing total net loss attributable to common stockholders by the weighted-average common shares outstanding. The weighted-average common shares outstanding is adjusted for shares subject to repurchase such as unvested restricted stock granted to employees in connection with acquisitions, contingently returnable shares and escrowed shares supporting indemnification obligations that are issued in connection with acquisitions and unvested stock options exercised. Diluted net loss per share is computed by dividing the net loss attributable to common stockholders by the weighted-average number of common shares outstanding including potential dilutive common stock instruments. In the three months ended March 31, 2014 and 2013, the Company's potential common stock instruments such as stock options, RSUs, ESPP, shares subject to repurchases and the warrant were not included in the computation of diluted loss per share as the effect of including these shares in the calculation would have been anti-dilutive.

The following table presents the calculation of basic and diluted net loss per share for periods presented (in thousands, except per share data).

	Three Months Ended March 31,	
	2014	2013
Net loss	\$(132,362)	\$(27,026)
Basic shares:		
Weighted-average common shares outstanding	579,128	132,957
Weighted-average unvested restricted stock		
subject to repurchase	(8,923)	(5,501)
Weighted-average shares used to compute		
basic net loss per share	570,205	127,456
Diluted shares:		
Weighted-average shares used to compute		
diluted net loss per share	570,205	127,456
Net loss per share attributable to common stockholders:		
Basic	\$(0.23)	\$(0.21)
Diluted	\$(0.23)	\$(0.21)

The following potential common shares were excluded from the calculation of diluted net loss per share attributable to common stockholders because their effect would have been anti-dilutive for the periods presented (in thousands):

	Three Months Ended March 31,	
	2014	2013
Stock options	39,796	45,465
RSUs	83,232	11,038
Employee stock purchase plans	1,868	—
Shares subject to repurchase	7,898	7,486
Warrant	117	117

Note 8. Common Stock and Stockholders' Equity

Common Stock

Each share of common stock is entitled to one vote. The holders of common stock are also entitled to receive dividends whenever funds are legally available and when and if declared by the Board of Directors, subject to the prior rights of holders of all classes of stock outstanding. As of March 31, 2014, no dividends have been declared.

Restricted Common Stock

The Company has granted restricted common stock to certain key continuing employees in connection with the acquisitions. Vesting of this stock is dependent on the respective employee's continued employment at the Company during the requisite service period, which is generally two to four years from the issuance date, and the Company has the option to repurchase the unvested shares upon termination of employment. The fair value of the restricted common stock issued to employees is recorded as compensation expense on a straight-line basis over the requisite service period.

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The activities for the restricted common stock issued to employees for the three month ended March 31, 2014 are summarized as follows (in thousands, except per share data):

	Number of Shares	Weighted-Average Grant-Date Fair Value Per Share
Unvested restricted common stock at December 31, 2013	6,866	\$ 17.60
Granted	—	\$ —
Vested	(1,498)	\$ 16.92
Canceled	—	\$ —
Unvested restricted common stock at March 31, 2014	5,368	\$ 17.79

During the three months ended March 31, 2014 and 2013, the Company recorded \$11.1 million and \$5.2 million, respectively, of compensation expense related to restricted common stock issued to employees. As of March 31, 2014, there was \$73.4 million of unamortized stock-based compensation expense related to restricted common stock issued which is expected to be recognized over a weighted-average period of 2.19 years.

Equity Incentive Plans

As of March 31, 2014 the total number of RSUs outstanding under the 2013 Equity Incentive Plan was 13.7 million shares, and 85.2 million shares were available for future issuance. There were 110.0 million shares of options and RSUs outstanding under the 2007 Equity Incentive Plan as of March 31, 2014. No additional shares will be issued under the 2007 Equity Incentive Plan.

Under the 2007 Equity Incentive Plan, RSUs granted to (i) international employees; and (ii) domestic employees prior to February 2013 (“Pre-2013 RSUs”) vest upon the satisfaction of both a service condition and a performance condition. The service condition for these awards is generally satisfied over four years. The performance condition was satisfied in February 2014 pursuant to the terms of the Company’s equity plan. An aggregate of 17.1 million shares of common stock were issued as a result of vesting and settlement of the Pre-2013 RSUs during the three months ended March 31, 2014. During the same period, the Company's employees who are not executive officers were allowed to sell a portion of vested and settled Pre-2013 RSUs in the public market to satisfy the income tax obligations related to the vesting and settlement of such awards. The proceeds from selling the shares required to satisfy the employees' minimum statutory obligation were withheld and remitted to the appropriate tax authorities. In addition, the Company undertook a net settlement of vested Pre-2013 RSUs held by the executive officers upon satisfaction of the performance condition in February 2014 and withheld shares and remitted income tax on behalf of the applicable executive officers of \$15.1 million in cash at the applicable minimum statutory rates. These shares withheld by the Company as a result of the net settlement of Pre-2013 RSUs are no longer considered issued and outstanding.

RSUs granted to domestic employees starting in February 2013 (“Post-2013 RSUs”) are not subject to a performance condition in order to vest. The majority of Post-2013 RSUs vest over a service period of four years. Under the terms of the 2007 and 2013 Equity Incentive Plan, the shares underlying Post-2013 RSUs that satisfy the service condition are to be delivered to holders no later than the fifteenth day of the third month following the end of the calendar year the service condition is satisfied, or if later, the end of the Company’s tax year, but no earlier than May 15, 2014.

Employee Stock Purchase Plan

As of March 31, 2014, no purchase has been made and 17.7 million shares were available for future issuance under the ESPP. During the three months ended March 31, 2014, the Company recorded \$6.2 million of stock-based compensation expense related to the ESPP.

Stock Option Activity

A summary of stock option activity for the three months ended March 31, 2014 is as follows (in thousands, except years and per share data):

	Options Outstanding			
	Number	Weighted-	Weighted-	Aggregate
	of	Average	Average	Intrinsic
	Shares	Exercise	Remaining	Value
		Price Per	Contractual	
		Share	Life	
			(in years)	
Outstanding at December 31, 2013	42,246	\$ 1.89	6.47	\$2,609,295
Options granted	—	\$ —		
Options exercised	(2,282)	\$ 0.59		
Options canceled	(168)	\$ 6.70		
Outstanding at March 31, 2014	39,796	\$ 1.94	6.21	\$1,780,127
Vested and expected to vest at				
March 31, 2014 ⁽¹⁾	39,123	\$ 1.89	6.19	\$