

TWITTER, INC.
Form 10-Q
October 30, 2018

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 September 30, 2018

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 every Interactive Data File required to be submitted 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 October 25, 2018 was 761,250,269.

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, including ad engagement, of our users and its impact on revenue;
- our plans regarding health and user safety, including our expectations regarding impact on our reported metrics, policies, enforcement and preventing manipulation of our platform;
- our expectations regarding MAUs, changes in DAUs, changes in cost per ad engagement and changes in ad engagements;
- our ability to develop or acquire new products, product features and services, improve our existing products and services, including with respect to Promoted Tweet product features, video and performance advertising, and increase the value of our products and services;
- our business strategies, plans and priorities, including our plans for growth and hiring, investment in our research and development efforts and our plans to scale capacity and enhance capability and reliability of our infrastructure, including capital expenditures relating to infrastructure;
- our ability to provide new content from third parties, including our ability to secure live streaming video content on terms that are acceptable to us;
- our ability to attract advertisers to our platforms, products and services and increase the amount that advertisers spend with us;
- our expectations regarding our user growth and growth rates and related opportunities as well as the continued usage of our mobile applications, including the impact of seasonality;
- our ability to increase our revenue and our revenue growth rate, including by increasing our data licensing revenue through our product and channel segmented go-to-market approach, as well as by increasing our mobile ad exchange revenue;
- our ability to improve user monetization;
- our future financial performance, including trends in cost per ad engagement, revenue (including data licensing revenue), cost of revenue, operating expenses, including stock-based compensation and income taxes;
- our expectations regarding our tax expense and cash taxes;
- the impact of the 2017 Tax Cuts and Jobs Act on our business;
- our expectations regarding outstanding litigation or the decisions of the courts;
- the effects of seasonal trends on our results of operations;
- the impact of our recent financial results on our valuation allowance for federal and state deferred tax assets;
- the sufficiency of our cash and cash equivalents, short-term investment balance and credit facility together with cash generated from operations to meet our working capital and capital expenditure requirements;
- our ability to timely and effectively develop, invest in, scale and adapt our existing technology and network infrastructure;
- our ability to successfully acquire and integrate companies and assets; and
- our expectations regarding international operations and foreign exchange gains and losses.

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, operating results, cash flows or 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, changes in daily active users or daily active usage, or DAUs, changes in ad engagements and changes in cost per ad engagement, 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, changes in DAUs, changes in ad engagements and changes in cost per ad engagement.

The numbers of active users 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. Furthermore, our metrics have been, and may continue to be, impacted by our health efforts, which are our overall efforts to reduce malicious activity on the service, inclusive of spam, malicious automation, and fake accounts. 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 during the third quarter of 2018 continues to represent less than 5% of our MAUs during the quarter. The false or spam accounts for a period represents the average of false or spam accounts in the samples during each monthly analysis period during the quarter. 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, and have made improvements in our spam detection capabilities that have resulted in the suspension of a large number of spam, malicious automation and fake accounts. We intend to continue to make such improvements. After we determine an account is spam, malicious automation or fake, we stop counting it in our MAU, DAU or related metrics. Additionally, we rely on third-party SMS aggregators and mobile carriers to deliver SMS messages to certain of our users when we send our SMS messages to such accounts. If, however, we are notified of material deliverability issues because of, for example, infrastructure issues at the service-provider level or governmental restrictions based on content, we do not include the affected users in MAUs. We also 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.

Certain metrics also include users that access Twitter through applications that automatically contact our servers for regular updates with no discernible user-initiated action involved, which we refer to as third-party auto-polling MAU. This activity causes our system to count MAUs associated with such applications as active users on the day or days such contact occurs. As of December 31, 2017, fewer than 8.5% of MAUs may have been third-party auto-polling MAU.

In addition, our data regarding user geographic location for purposes of reporting the geographic location of our MAUs is based on the IP address or phone number associated with the account when a user initially registered the account on Twitter. The IP address or phone number may not always accurately reflect a user’s actual location at the time such user engaged with our platform. For example, a mobile user may appear to be accessing Twitter from the location of the proxy server that the user connects to rather than from a user’s actual location.

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.

Our total audience metrics are based on both internal metrics and data from Google Analytics, which measures logged-out visitors to our properties.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

TWITTER, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

(Unaudited)

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,928,929	\$ 1,638,413
Short-term investments	4,027,614	2,764,689
Accounts receivable, net of allowance for doubtful accounts of \$4,147 and \$5,430	621,943	664,268
Prepaid expenses and other current assets	141,274	254,514
Total current assets	6,719,760	5,321,884
Property and equipment, net	904,027	773,715
Intangible assets, net	44,810	49,654
Goodwill	1,227,939	1,188,935
Deferred tax assets, net	765,708	10,455
Other assets	83,948	67,834
Total assets	\$ 9,746,192	\$ 7,412,477
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 116,685	\$ 170,969
Accrued and other current liabilities	380,567	327,333
Convertible notes, short-term	884,435	—
Capital leases, short-term	75,959	84,976
Total current liabilities	1,457,646	583,278
Convertible notes, long-term	1,710,065	1,627,460
Capital leases, long-term	37,371	81,308
Deferred and other long-term tax liabilities, net	20,732	13,240
Other long-term liabilities	67,806	59,973
Total liabilities	3,293,620	2,365,259
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred stock, \$0.000005 par value-- 200,000 shares authorized; none issued and outstanding	—	—
Common stock, \$0.000005 par value-- 5,000,000 shares authorized; 760,403 and 746,902 shares issued and outstanding	4	4
Additional paid-in capital	8,225,037	7,750,522
Accumulated other comprehensive loss	(63,093)	(31,579)

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Accumulated deficit	(1,709,376)	(2,671,729)
Total stockholders' equity	6,452,572	5,047,218
Total liabilities and stockholders' equity	\$ 9,746,192	\$ 7,412,477

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		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Revenue	\$758,111	\$589,633	\$2,133,523	\$1,711,739
Costs and expenses				
Cost of revenue	243,644	210,016	696,652	643,263
Research and development	150,764	136,115	412,684	408,014
Sales and marketing	193,496	172,957	559,587	527,847
General and administrative	78,339	63,266	218,183	203,973
Total costs and expenses	666,243	582,354		