TWITTER, INC.
Form 10-Q
November 01, 2016

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, 2016

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 incorporation or organization)	(I.R.S. Employer Identification No.)

1355 Market Street, Suite 900

San Francisco, California 94103

(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 October 27, 2016 was 714,902,970.

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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, 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 expressio 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;
- our ability to develop or acquire new products, product features and services, improve our existing products and services, including with respect to video and performance advertising, and increase the value of our products and services;
- our business strategies, plans and priorities, including our plans for growth, investment and refinement of our core service;
- 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 rate and the continued usage of our mobile applications;
- our ability to increase our revenue and our revenue growth rate;
- our ability to improve user monetization, including of our logged out and syndicated audiences;
- 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, including our ability to operate in those countries.

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 (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. 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 as of December 31, 2015. 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 in the past have made improvements in our spam detection capabilities that have resulted in the suspension of 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 discernible user-initiated 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. As of December 31, 2015, less than 8.5% of users used third-party applications that may have automatically contacted our servers for regular updates without any discernible additional user-initiated action. As such, the calculations of MAUs presented in this Quarterly Report on Form 10-Q may be affected as a result of this 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 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.

We present and discuss our total audience based on both internal metrics and relying on data from Google Analytics, which measures logged out visitors to our properties.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

TWITTER, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

(Unaudited)

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$1,011,957	$911,471
Short-term investments	2,652,226	2,583,877
Accounts receivable, net of allowance for doubtful accounts of $8,026 and $8,121 as of September 30, 2016 and December 31, 2015, respectively	590,108	638,694
Prepaid expenses and other current assets	224,122	247,750
Total current assets	4,478,413	4,381,792
Property and equipment, net	803,305	735,299
Intangible assets	111,983	141,015
Goodwill	1,184,401	1,122,728
Other assets	164,844	61,605
Total assets	$6,742,946	$6,442,439
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$104,296	$134,081
Accrued and other current liabilities	284,140	283,792
Capital leases, short-term	82,162	88,166
Total current liabilities	470,598	506,039
Convertible notes	1,517,673	1,455,095
Capital leases, long-term	54,389	59,695
Deferred and other long-term tax liabilities, net	8,191	2,978
Other long-term liabilities	62,763	50,585
Total liabilities	2,113,614	2,074,392
Commitments and contingencies (Note 12)		
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; 713,721 and 694,132 shares issued and outstanding as of September 30, 2016 and December 31, 2015, respectively	4	3

Additional paid-in capital	7,058,933	6,507,087
Accumulated other comprehensive loss	(46,309)	(45,566)
Accumulated deficit	(2,383,296)	(2,093,477)
Total stockholders' equity	4,629,332	4,368,047
Total liabilities and stockholders' equity	$6,742,946	$6,442,439

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue	$615,934	$569,237	$1,812,413	$1,507,559
Costs and expenses				
Cost of revenue	225,159	200,195	626,530	511,293
Research and development	177,049	207,937	511,354	596,590
Sales and marketing	224,436	208,797	697,226	594,302
General and administrative	67,379	57,545	200,884	188,231
Total costs and expenses	694,023	674,474	2,035,994	1,890,416
Loss from operations	(78,089)	(105,237)	(223,581)	(382,857)
Interest expense	(24,860)	(25,239)	(74,687)	(73,995)
Other income (expense), net	6,640	1,948	19,680	10,378
Loss before income taxes	(96,309)	(128,528)	(278,588)	(446,474)
Provision (benefit) for income taxes	6,562	3,162	11,231	(15,679)
Net loss	$(102,871)	$(131,690)	$(289,819)	$(430,795)
Net loss per share attributable to common stockholders:				
Basic	$(0.15)	$(0.20)	$(0.42)	$(0.66)
Diluted	$(0.15)	$(0.20)	$(0.42)	$(0.66)
Weighted-average shares used to compute net loss per share attributable to common stockholders:				
Basic	704,359	670,604	698,104	655,721
Diluted	704,359	670,604	698,104	655,721

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net loss	$(102,871)	$(131,690)	$(289,819)	$(430,795)
Other comprehensive income (loss):				
Change in unrealized gain (loss) on investments in available-for-sale securities, net of tax	594	866	4,075	921
Change in foreign currency translation adjustment	(2,400)	(2,328)	(4,818)	(25,193)
Net change in accumulated other comprehensive loss	(1,806)	(1,462)	(743)	(24,272)
Comprehensive loss	$(104,677)	$(133,152)	$(290,562)	$(455,067)

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

TWITTER, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities		
Net loss	$(289,819)	$(430,795)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	282,782	225,377
Stock-based compensation expense	477,138	523,869
Amortization of discount on convertible notes	55,590	51,139
Changes in bad debt provision	2,253	360
Deferred income tax	58	(24,220)
Other adjustments	9,374	5,327
Changes in assets and liabilities, net of assets acquired and liabilities assumed from acquisitions:		
Accounts receivable	51,191	(105,486)
Prepaid expenses and other assets	2,331	(12,684)
Accounts payable	(26,291)	(9,511)
Accrued and other liabilities	1,905	60,452
Net cash provided by operating activities	566,512	283,828
Cash flows from investing activities		
Purchases of property and equipment	(170,552)	(266,816)
Purchases of marketable securities	(2,277,727)	(3,086,004)
Proceeds from maturities of marketable securities	2,033,257	2,225,255
Proceeds from sales of marketable securities	174,017	359,817
Changes in restricted cash	(6,606)	(2,840)
Purchases of investments in privately-held companies	(81,502)	(10,500)
Business combinations, net of cash acquired	(80,142)	(51,644)
Other investing activities	(1,181)	(1,930)
Net cash used in investing activities	(410,436)	(834,662)
Cash flows from financing activities		
Taxes paid related to net share settlement of equity awards	(11,098)	(8,878)
Repayments of capital lease obligations	(73,897)	(91,365)
Proceeds from exercise of stock options	7,070	8,450
Proceeds from issuances of common stock under employee stock purchase plan	15,821	21,600
Other financing activities	570	1,983
Net cash used in financing activities	(61,534)	(68,210)
Net increase (decrease) in cash and cash equivalents	94,542	(619,044)
Foreign exchange effect on cash and cash equivalents	5,944	(15,248)
Cash and cash equivalents at beginning of period	911,471	1,510,724
Cash and cash equivalents at end of period	$1,011,957	$876,432
Supplemental disclosures of non-cash investing and financing activities		

Common stock issued in connection with acquisitions	$644	$516,538
Equipment purchases under capital leases	$63,022	$24,236
Changes in accrued property and equipment purchases	$7,779	$(4,380)

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 offers products and services for users, advertisers, developers and platform and data partners.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. 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 (“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, 2015.

Use of Estimates

The preparation of the Company’s consolidated financial statements in conformity with 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. 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. 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.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued a new accounting standard update on revenue recognition from contracts with customers. The new guidance will replace all current GAAP guidance on this topic and eliminate industry-specific guidance. According to the new guidance, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration for which the Company expects to be entitled in exchange for those goods or services. In July 2015, the FASB decided to delay the effective date of the guidance by one year and permit early adoption for annual and interim periods beginning after December 15, 2016. As a result of the revision, the guidance will be effective for fiscal years, and interim periods with those fiscal years, beginning after December 15, 2017 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. In March 2016, April 2016 and May 2016, the FASB further amended the guidance to clarify the implementation on principal versus agent considerations, the identification of performance obligation and the licensing implementation guidance, and to provide narrow-scope improvements and practical expedients. The Company has not yet selected a transition method and is evaluating the impact of adopting these new accounting standard updates on the financial statements and related disclosures.

In June 2014, the FASB issued a new accounting standard update on stock-based compensation when the terms of an award provide that a performance target could be achieved after the requisite service period. The new guidance requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the requisite service has already been rendered. The Company adopted this guidance prospectively during the three months ended March 31, 2016, and the adoption had no impact to the Company’s financial statements.

In February 2015, the FASB issued a new accounting standard update on consolidation analysis. The new guidance amends the current consolidation guidance with respect to the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. This guidance became effective for reporting periods beginning after December 15, 2015. The Company adopted this guidance retrospectively during the three months ended March 31, 2016, and the adoption had no impact on the Company's financial statements.

In April 2015, the FASB issued a new accounting standard update on the presentation of debt issuance costs. The new guidance requires the debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The Company adopted this guidance retrospectively during the three months ended March 31, 2016 and the adoption had an immaterial impact on the Company's financial statements.

In September 2015, the FASB issued a new accounting standard update on simplifying the accounting for measurement-period adjustments in business combinations. The new guidance requires that the adjustments to provisional amounts that are identified during the measurement period be recognized in the reporting period when the adjustments are determined. In addition, the effect on earnings of changes as a result of the change to the provisional amounts is required to be recorded in the same period's financial statements. The Company adopted this guidance prospectively on January 1, 2016, and the adoption had no impact on the Company's financial statements.

In January 2016, the FASB issued a new accounting standard update on the classification and measurement of financial instruments. The new guidance principally affects accounting standards for equity investments, financial liabilities where the fair value option has been elected, and the presentation and disclosure requirements for financial instruments. This guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. The Company is evaluating the impact of adopting this new accounting standard update on the financial statements and related disclosures.

In February 2016, the FASB issued a new accounting standard update on leases. The new guidance requires lessees to recognize right-of-use assets and lease liabilities for operating leases, initially measured at the present value of the lease payments, on the balance sheet. In addition, it requires lessees to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, generally on a straight-line basis. This guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The Company is evaluating the impact of adopting this new accounting standard update on the financial statements and related disclosures and anticipates this new guidance will materially impact the Company's financial statements given the Company has a significant number of operating leases.

In March 2016, the FASB issued a new accounting standard update on simplifying the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The new guidance also allows an entity to account for forfeitures when they occur. This guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. The Company is evaluating the impact of adopting this new accounting standard update on the financial statements and related disclosures.

In June 2016, the FASB issued a new accounting standard update on the measurement of credit losses on financial instruments. The new guidance requires financial assets measured at amortized cost to be presented at the net amount expected to be collected and available-for-sale debt securities to record credit losses through an allowance for credit losses. This guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted as early as of the fiscal years beginning after December 15, 2018. The Company is evaluating the impact of adopting this new accounting standard update on the financial statements and related disclosures.

In August 2016, the FASB issued a new accounting standard update on the statement of cash flows. The new guidance clarifies classification of certain cash receipts and cash payments in the statement of cash flows. This guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. The Company is evaluating the impact of adopting this new accounting standard update on the financial statements and related disclosures.

In October 2016, the FASB issued a new accounting standard update on simplifying the accounting for income taxes related to intra-entity asset transfers. The new guidance allows an entity to recognize the tax expense from the sale of an asset in the seller's tax jurisdiction when the transfers occurs, even though the pre-tax effects of that transaction are eliminated in consolidation. This guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted only in the first quarter of 2017. The Company is evaluating the impact of adopting this new accounting standard update on the financial statements and related disclosures.

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

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

	September 30, 2016	December 31, 2015
Cash and cash equivalents:		
Cash	$224,374	$300,363
Money market funds	486,774	141,700
Commercial paper and certificates of deposit	300,809	469,408
Total cash and cash equivalents	$1,011,957	$911,471
Short-term investments:		
U.S. government and agency securities including treasury bills	$1,063,531	$1,156,418
Corporate notes, commercial paper and certificates of deposit	1,588,695	1,427,459
Total short-term investments	$2,652,226	$2,583,877

The contractual maturities of securities classified as available-for-sale as of September 30, 2016 were as follows (in thousands):

	September 30, 2016
Due within one year	$ 1,884,077
Due after one year through two years	768,149
Total	$ 2,652,226

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):

	September 30, 2016			
	Gross Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Aggregated Estimated Fair Value
U.S. government and agency securities including treasury bills	$1,063,323	$ 446	$ (238)	$1,063,531
Corporate notes, commercial paper and certificates of deposit	1,588,805	381	(491)	1,588,695
Total available-for-sale securities classified as short-term investments	$2,652,128	$ 827	$ (729)	$2,652,226

	December 31, 2015			
	Gross Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Aggregated Estimated Fair Value
U.S. government and agency securities including treasury bills	$1,158,479	$ 6	$ (2,067)	$1,156,418
Corporate notes, commercial paper and certificates of deposit	1,429,374	21	(1,936)	1,427,459
Total available-for-sale securities classified as short-term investments	$2,587,853	$ 27	$ (4,003)	$2,583,877

There were immaterial securities in a continuous loss position for 12 months or longer as of September 30, 2016 and no securities in a continuous loss position for 12 months or longer as of December 31, 2015.

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 Company measures its cash equivalents, short-term investments and derivative financial instruments at fair value. The Company classifies its cash equivalents, short-term investments and derivative financial instruments within Level 1 or Level 2 because the Company values these investments using quoted market prices or alternative pricing sources and models utilizing market observable inputs. The fair value of the Company's Level 1 financial assets is based on quoted market prices of the identical underlying security. The fair value of the Company's Level 2 financial assets is based on inputs that are directly or indirectly observable in the market, including the readily-available pricing sources for the identical underlying security that may not be actively traded.

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 September 30, 2016 and December 31, 2015 based on the three-tier fair value hierarchy (in thousands):

	September 30, 2016			
	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents:				
Money market funds	$486,774	$—	$ —	$486,774
Commercial paper	—	300,809	—	300,809
Short-term investments:				
U.S. government securities	—	504,580	—	504,580
Agency securities	—	558,951	—	558,951
Corporate notes	—	677,620	—	677,620
Commercial paper	—	287,580	—	287,580
Certificates of deposit	—	623,495	—	623,495
Other current assets:				
Foreign currency forward contracts	—	724	—	724
Total	$486,774	$2,953,759	$ —	$3,440,533
Liabilities				
Other current liabilities:				
Foreign currency forward contracts	—	1,824	—	1,824
Total	$—	$1,824	$ —	$1,824

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents:				
Money market funds	$141,700	$—	$ —	$141,700
Commercial paper	—	419,110	—	419,110
Certificates of deposit	—	50,298	—	50,298
Short-term investments:				
Treasury bills	29,953	—	—	29,953
U.S. government securities	—	537,168	—	537,168
Agency securities	—	589,297	—	589,297
Corporate notes	—	693,593	—	693,593
Commercial paper	—	229,965	—	229,965
Certificates of deposit	—	503,901	—	503,901
Other current assets:				
Foreign currency forward contracts	—	6,804	—	6,804
Total	$171,653	$3,030,136	$ —	$3,201,789
Liabilities				
Other current liabilities:				
Foreign currency forward contracts	—	3,005	—	3,005
Total	$—	$3,005	$ —	$3,005

In 2014, the Company issued $935.0 million principal amount of 0.25% convertible senior notes due in 2019 (the "2019 Notes") and $954.0 million principal amount of 1.00% convertible senior notes due in 2021 (the "2021 Notes" and together with the 2019 Notes, the "Notes") in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. Refer to Note 8 – Convertible Senior Notes for further details on the Notes. The estimated fair value of the 2019 Notes and 2021 Notes based on a market approach as of September 30, 2016 was approximately $898.3 million and $906.5 million respectively, which represents a Level 2 valuation. The estimated fair value was determined based on the estimated or actual bids and offers of the Notes in an over-the-counter market on September 30, 2016.

Derivative Financial Instruments

The Company enters into foreign currency forward contracts with financial institutions to reduce the risk that its earnings may be adversely affected by the impact of exchange rate fluctuations on monetary assets or liabilities denominated in currencies other than the functional currency of a subsidiary. These contracts do not subject the Company to material balance sheet risk due to exchange rate movements because gains and losses on these derivatives are intended to offset gains and losses on the hedged foreign currency denominated assets and liabilities. These foreign currency forward contracts are not designated as hedging instruments.

The Company recognizes these derivative instruments as either assets or liabilities in the consolidated balance sheets at fair value based on a Level 2 valuation. The Company records changes in the fair value (i.e., gains or losses) of the derivatives as other income (expense), net in the consolidated statements of operations. The notional principal of foreign currency forward contracts outstanding was equivalent to $389.2 million and $425.2 million at September 30, 2016 and December 31, 2015, respectively.

The fair values of outstanding derivative instruments for the periods presented on a gross basis are as follows (in thousands):

	Balance Sheet Location	September 30, 2016	December 31, 2015
Assets			
Foreign currency forward contracts not designated as hedging instruments	Other current assets	$ 724	6,804
Liabilities			
Foreign currency forward contracts not designated as hedging instruments	Other current liabilities	1,824	3,005
Total fair value of derivative instruments		$ (1,100)	$ 3,799

The Company recognized $0.2 million and $4.9 million of losses on foreign currency contracts in the three and nine months ended September 30, 2016, respectively. The Company recognized $3.7 million of gains on foreign currency contracts in both the three and nine months ended September 30, 2015.

Note 4. Property and Equipment, Net

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

	September 30, 2016	December 31, 2015
Property and equipment, net		
Equipment	$861,398	$720,421
Furniture and leasehold improvements	342,260	297,274
Capitalized software	320,666	211,241
Construction in progress	75,582	85,073
Total	1,599,906	1,314,009
Less: Accumulated depreciation and amortization	(796,601)	(578,710)
Property and equipment, net	$803,305	$735,299

Note 5. Goodwill and Intangible Assets

The following table presents the goodwill activities for the periods presented (in thousands):

Goodwill	
Balance as of December 31, 2015	$1,122,728
Acquisitions	69,744
Foreign currency translation adjustment	(8,071)
Balance as of September 30, 2016	$1,184,401

For the periods presented, the gross goodwill balance equaled the net balance since no impairment charges have been recorded.

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

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
September 30, 2016:			
Patents and developed technologies	$145,490	$ (72,584)	$72,906
Publisher and advertiser relationships	75,300	(36,276)	39,024
Assembled workforce	1,960	(1,907)	53
Other intangible assets	2,100	(2,100)	—
Total	$224,850	$ (112,867)	$111,983
December 31, 2015:			
Patents and developed technologies	$132,444	$ (43,991)	$88,453
Publisher and advertiser relationships	75,300	(23,803)	51,497
Assembled workforce	1,960	(1,714)	246
Other intangible assets	2,100	(1,281)	819
Total	$211,804	$ (70,789)	$141,015

Amortization expense associated with intangible assets for the three months ended September 30, 2016 and 2015 was $16.6 million and $14.5 million, respectively, and for the nine months ended September 30, 2016 and 2015 was $42.1 million and $39.2 million, respectively.

Estimated future amortization expense as of September 30, 2016 is as follows (in thousands):

Remainder of 2016	$9,775
2017	34,135
2018	24,467
2019	14,247
2020	12,080
Thereafter	17,279
Total	$111,983

Note 6. Accrued and Other Current Liabilities

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

	September 30,	December 31,

	2016	2015
Accrued compensation	$ 74,887	$ 90,906
Accrued sales and marketing expenses	17,259	27,948
Accrued tax liabilities	26,978	25,880
Deferred revenue	32,288	23,674
Accrued publisher and ad network costs	24,632	23,486
Accrued fixed assets and maintenance	28,618	15,727
Accrued other	79,478	76,171
Total	$ 284,140	$ 283,792

Note 7. Acquisitions and Other Investments

2016 Acquisitions

During the nine months ended September 30, 2016, the Company acquired two companies, each of which was accounted for as a business combination. The total purchase price of $85.2 million (paid in shares of the Company's common stock having a total fair value of $0.6 million and cash of $84.6 million) for these acquisitions was allocated as follows: $13.3 million to developed technologies, $4.4 million to cash acquired, $0.2 million to net tangible assets acquired based on their estimated fair value on the acquisition date, $2.4 million to deferred tax liability, and the excess $69.7 million of the purchase price over the fair value of net assets acquired to goodwill. Tax deductible goodwill resulting from certain of these acquisitions was $63.8 million. The remaining goodwill is not tax deductible for U.S. income tax purposes. Developed technologies will be amortized on a straight-line basis over their estimated useful lives of 24 months.

The results of operations for each of these acquisitions have been included in the Company's consolidated statements of operations since the date of acquisition. Actual and pro forma revenue and results of operations for these acquisitions have not been presented because they do not have a material impact on the consolidated revenue and results of operations, either individually or in aggregate.

Investments in Privately-Held Companies

The Company makes strategic investments in privately-held companies and assesses the accounting for these investments under the equity or cost method. The Company also evaluates each investee to determine if the investee is a variable interest entity and, if so, whether the Company is the primary beneficiary of the variable interest entity. The Company has determined, as of September 30, 2016, there were no variable interest entities required to be consolidated in the Company's Consolidated Financial Statements. The Company's investments in privately-held companies are primarily accounted for using the cost method which had a carrying value of $92.2 million and $14.2 million as of September 30, 2016 and December 31, 2015, respectively. The maximum loss the Company can incur for its investments is their carrying value. These investments in privately-held companies are included within Other Assets on the consolidated balance sheets.

The Company periodically evaluates the carrying value of the cost method investments, when events and circumstances indicate that the carrying amount of the investment may not be recovered. The Company estimates the fair value of the cost method investments to assess whether impairment losses shall be recorded using Level 3 inputs. These investments include the Company's holdings in privately-held companies that are not exchange traded and therefore not supported with observable market prices hence the Company determines the fair value by reviewing equity valuation reports, current financial results and long-term plans of the private companies.

Note 8. Convertible Senior Notes

In 2014, the Company issued $935.0 million principal amount of 2019 Notes and $954.0 million principal amount of 2021 Notes. The total net proceeds from this offering were approximately $1.86 billion, after deducting $28.3 million of initial purchasers' discount and $0.5 million debt issuance costs in connection with the Notes.

The interest rates are fixed at 0.25% and 1.00% per annum for the 2019 Notes and the 2021 Notes, respectively, and are payable semi-annually in arrears on March 15 and September 15 of each year, commencing on March 15, 2015. For the three months ended September 30, 2016 and 2015, the Company recognized $1.3 million and $1.3 million, respectively, of interest expense related to the amortization of initial purchasers' discount and debt issuance costs, and $2.9 million and $3.0 million, respectively, of accrued coupon interest expense. For the nine months ended September 30, 2016 and 2015, the Company recognized $3.7 million and $3.9 million, respectively, of interest expense related to the amortization of initial purchasers' discount and debt issuance costs, and $8.9 million and $9.0 million, respectively, of accrued coupon interest expense.

For the three months ended September 30, 2016 and 2015, the Company recognized $20.0 million and $18.8 million, respectively, of interest expense related to the amortization of the debt discount. For the nine months ended September 30, 2016 and 2015, the Company recognized $58.9 million and $55.3 million, respectively, of interest expense related to the amortization of the debt discount. As of September 30, 2016, the net carrying value, net of the initial purchasers' discount and debt discount, of 2019 Notes and 2021 Notes was $787.1 million and $730.6 million, respectively.

The Notes consisted of the following (in thousands):

	September 30, 2016		December 31, 2015	
	2019 Notes	2021 Notes	2019 Notes	2021 Notes
Principal amounts:				
Principal	$935,000	$954,000	$935,000	$954,000
Unamortized initial purchasers' discount and debt discount [1]	(147,948)	(223,379)	(181,994)	(251,911)
Net carrying amount	$787,052	$730,621	$753,006	$702,089
Carrying amount of the equity component [2]	$222,826	$283,283	$222,826	$283,283

[1] Included in the consolidated balance sheets within convertible notes and amortized over the remaining lives of the Notes.
[2] Included in the consolidated balance sheets within additional paid-in capital.

As of September 30, 2016, the remaining life of the 2019 Notes and 2021 Notes is approximately 35 months and 59 months, respectively.

Note 9. Net Loss per Share

Basic net loss per share is computed by dividing total net loss attributable to common stockholders by the weighted-average common shares outstanding during the period. 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, during the period, including potential dilutive common stock instruments. In the three and nine months ended September 30, 2016 and 2015, the Company's potential common stock instruments such as stock options, Restricted Stock Units ("RSUs"), shares to be purchased under the 2013 Employee Stock Purchase Plan ("ESPP"), shares subject to repurchases, the conversion feature of the Notes and the warrants 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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net loss	$(102,871)	$(131,690)	$(289,819)	$(430,795)
Basic shares:				
Weighted-average common shares outstanding	711,340	678,817	704,418	663,897
Weighted-average restricted stock	(6,981)	(8,213)	(6,314)	(8,176)

subject to repurchase				
Weighted-average shares used to compute basic net loss per share	704,359	670,604	698,104	655,721
Diluted shares:				
Weighted-average shares used to compute diluted net loss per share	704,359	670,604	698,104	655,721
Net loss per share attributable to common stockholders:				
Basic	$(0.15)	$(0.20)	$(0.42)	$(0.66)
Diluted	$(0.15)	$(0.20)	$(0.42)	$(0.66)

The following number of potential shares of the Company’s common stock at the end of each period 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 and Nine Months Ended September 30,	
	2016	2015
RSUs	54,666	46,582
Warrants	24,329	24,329
Stock options	8,953	17,384
Shares subject to repurchase and others	8,468	9,719

Since the Company expects to settle the principal amount of the outstanding Notes in cash, the Company uses the treasury stock method for calculating any potential dilutive effect of the conversion spread on diluted net income per share, if applicable. The conversion spread of 24.3 million shares will have a dilutive impact on diluted net income per share of common stock when the average market price of the Company’s common stock for a given period exceeds the conversion price of $77.64 per share for the Notes.

If the average market price of the Company’s common stock exceeds the exercise price of the warrants, $105.28, the warrants will have a dilutive effect on the earnings per share assuming that the Company is profitable. Since the average market price of the Company’s common stock is below $105.28, the warrants are anti-dilutive.

Note 10. Stockholders’ Equity

Equity Incentive Plans

The Company’s 2013 Equity Incentive Plan became effective upon the completion of the Company’s initial public offering and serves as the successor to the 2007 Equity Incentive Plan. Initially, 68.3 million shares were reserved under the 2013 Equity Incentive Plan and any shares subject to options or other similar awards granted under the 2007 Equity Incentive Plan that expire, are forfeited, are repurchased by the Company or otherwise terminate unexercised will become available under the 2013 Equity Incentive Plan. The number of shares of the Company’s common stock available for issuance under the 2013 Equity Incentive Plan were and will be increased on the first day of each fiscal year beginning with the 2014 fiscal year, in an amount equal to the least of (i) 60,000,000 shares, (ii) 5% of the outstanding shares on the last day of the immediately preceding fiscal year or (iii) such number of shares determined by the Company’s Board of Directors. No additional shares will be issued under the 2007 Equity Incentive Plan.

On May 25, 2016, the Company’s stockholders approved the 2016 Equity Incentive Plan. A total of 6,814,085 shares were reserved under the 2016 Equity Incentive Plan, which equals the number of shares that the Jack Dorsey Revocable Trust dated December 8, 2010 (the “Jack Dorsey Trust”), for which Jack Dorsey, the Company’s Chief Executive Officer, serves as trustee, gave back and contributed to the Company without any cost or charge to the Company. All such shares have been retired and cancelled by the Company. A maximum aggregate number of 6,814,085 shares were reserved under the 2016 Equity Incentive Plan and will be available for grants to employees, non-employee directors and consultants.

Employee Stock Purchase Plan

The number of shares available for sale under the ESPP were and will be increased on the first day of each fiscal year beginning with the 2014 fiscal year, in an amount equal to the least of (i) 11.3 million shares; (ii) 1% of the outstanding shares of the Company's common stock as of the last day of the immediately preceding fiscal year; or (iii) such other amount as determined by the Company's Board of Directors.

During the nine months ended September 30, 2016, employees purchased an aggregate of 1.3 million shares under the ESPP at a price of $11.99 per share. During the nine months ended September 30, 2015, employees purchased an aggregate of 0.7 million shares under the ESPP at a price of $31.07 per share. During the three months ended September 30, 2016 and 2015, the Company recorded $4.4 million and $5.0 million, respectively, and recorded $15.8 million and $13.1 million during the nine months ended September 30, 2016 and 2015, respectively, of stock-based compensation expense related to the ESPP.

Restricted Common Stock

The Company has granted restricted common stock to certain 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 up to four years from the issuance date, and the Company has the right 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.

The activities for the restricted common stock issued to employees for the nine months ended September 30, 2016 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, 2015	4,540	$ 33.88
Granted	2,803	$ 16.34
Vested	(1,706)	$ 32.49
Canceled	(130)	$ 33.44
Unvested restricted common stock at September 30, 2016	5,507	$ 25.40

Stock Option Activity

A summary of stock option activity for the nine months ended September 30, 2016 is as follows (in thousands, except life in years and per share data):

Options Outstanding			
Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life	Aggregate