TWITTER, INC.
Form 10-Q
May 03, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 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 x 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 x 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 x	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 x

The number of shares of the registrant's common stock outstanding as of April 26, 2016 was 701,897,432.

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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 and increase the value of our products and services;
- our business strategies, plans and priorities, including our plans for growth 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 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 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.

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.

Additionally, as we previously announced, our reported MAUs will no longer include SMS fast followers; however, we will include SMS fast followers in our total audience count, as we make those disclosures. 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)

	March 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$1,027,661	$911,471
Short-term investments	2,548,749	2,583,877
Accounts receivable, net of allowance for doubtful accounts of $7,850 and $8,121 as of March 31, 2016 and December 31, 2015, respectively	576,800	638,694
Prepaid expenses and other current assets	235,699	247,750
Total current assets	4,388,909	4,381,792
Property and equipment, net	746,713	735,299
Intangible assets	128,274	141,015
Goodwill	1,122,533	1,122,728
Other assets	89,739	61,605
Total assets	$6,476,168	$6,442,439
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$90,353	$134,081
Accrued and other current liabilities	250,720	283,792
Capital leases, short-term	81,692	88,166
Total current liabilities	422,765	506,039
Convertible notes	1,475,513	1,455,095
Capital leases, long-term	45,478	59,695
Deferred and other long-term tax liabilities, net	3,847	2,978
Other long-term liabilities	51,079	50,585
Total liabilities	1,998,682	2,074,392
Commitments and contingencies (Note 11)		
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; 700,203 and 694,132 shares issued and outstanding as of March 31, 2016 and December 31, 2015, respectively	3	3
Additional paid-in capital	6,681,181	6,507,087

Accumulated other comprehensive loss	(30,490)	(45,566)
Accumulated deficit	(2,173,208)	(2,093,477)
Total stockholders' equity	4,477,486	4,368,047
Total liabilities and stockholders' equity	$6,476,168	$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 March 31,	
	2016	2015
Revenue	$594,521	$435,939
Costs and expenses		
Cost of revenue	198,405	143,475
Research and development	155,794	189,746
Sales and marketing	236,171	183,557
General and administrative	63,267	65,777
Total costs and expenses	653,637	582,555
Loss from operations	(59,116)	(146,616)
Interest expense	(24,893)	(24,319)
Other income (expense), net	6,306	9,125
Loss before income taxes	(77,703)	(161,810)
Provision for income taxes	2,028	632
Net loss	$(79,731)	$(162,442)
Net loss per share attributable to common stockholders:		
Basic	$(0.12)	$(0.25)
Diluted	$(0.12)	$(0.25)
Weighted-average shares used to compute net loss per share attributable to common stockholders:		
Basic	691,564	640,464
Diluted	691,564	640,464

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,	
	2016	2015
Net loss	$(79,731)	$(162,442)
Other comprehensive income (loss):		
Unrealized gain on investments in available-for-sale securities, net of tax	4,442	570
Foreign currency translation adjustment	10,634	(33,502)
Net change in accumulated other comprehensive loss	15,076	(32,932)
Comprehensive loss	$(64,655)	$(195,374)

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, 2016	2015
Cash flows from operating activities		
Net loss	$(79,731)	$(162,442)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	88,621	67,864
Stock-based compensation expense	150,916	182,805
Amortization of discount on convertible notes	18,370	16,638
Changes in bad debt provision	(158)	2,792
Deferred income tax	86	(1,942)
Other adjustments	6,605	(6,411)
Changes in assets and liabilities, net of assets acquired and liabilities assumed from acquisitions:		
Accounts receivable	65,756	(4,159)
Prepaid expenses and other assets	(12,819)	(2,640)
Accounts payable	(37,033)	(1,714)
Accrued and other liabilities	(37,849)	1,390
Net cash provided by operating activities	162,764	92,181
Cash flows from investing activities		
Purchases of property and equipment	(59,148)	(67,735)
Purchases of marketable securities	(581,069)	(729,793)
Proceeds from maturities of marketable securities	595,586	712,405
Proceeds from sales of marketable securities	21,289	178,631
Changes in restricted cash	(76)	(3,362)
Business combinations, net of cash acquired	—	(28,927)
Other investing activities	(5,000)	(2,000)
Net cash provided by (used in) investing activities	(28,418)	59,219
Cash flows from financing activities		
Taxes paid related to net share settlement of equity awards	(2,124)	(6,174)
Repayments of capital lease obligations	(24,917)	(33,546)
Proceeds from exercise of stock options	2,941	3,749
Other financing activities	21	—
Net cash used in financing activities	(24,079)	(35,971)
Net increase in cash and cash equivalents	110,267	115,429
Foreign exchange effect on cash and cash equivalents	5,923	(18,748)
Cash and cash equivalents at beginning of period	911,471	1,510,724
Cash and cash equivalents at end of period	$1,027,661	$1,607,405
Supplemental disclosures of non-cash investing and financing activities		
Common stock issued in connection with acquisitions	$—	$57,679
Equipment purchases under capital leases	$4,349	$4,821

Changes in accrued property and equipment purchases	$(1,309)	$12,360

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. 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 (“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 and April 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. 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. Adoption of this new accounting standard update is not expected to have a material impact on the Company's financial statements.

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.

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

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

	March 31,

	2016	December 31, 2015
Cash and cash equivalents:		
Cash	$242,542	$300,363
Money market funds	275,326	141,700
Corporate notes, certificates of deposit and commercial paper	509,793	469,408
Total cash and cash equivalents	$1,027,661	$911,471
Short-term investments:		
U.S. government and agency securities including treasury bills	$1,167,900	$1,156,418
Corporate notes, certificates of deposit and commercial paper	1,380,849	1,427,459
Total short-term investments	$2,548,749	$2,583,877

The contractual maturities of securities classified as available-for-sale as of March 31, 2016 were as follows (in thousands):

	March 31, 2016
Due within one year	$ 2,031,864
Due after one year through two years	516,885
Total	$ 2,548,749

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, 2016			
	Gross Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Aggregated Estimated Fair Value
U.S. government and agency securities including treasury bills	$1,167,851	$ 198	$ (149)	$1,167,900
Corporate notes, certificates of deposit and commercial paper	1,380,433	740	(324)	1,380,849
Total available-for-sale securities classified as short-term investments	$2,548,284	$ 938	$ (473)	$2,548,749

	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, certificates of deposit and commercial paper	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 no securities in a continuous loss position for 12 months or longer as of March 31, 2016 and 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 March 31, 2016 and December 31, 2015 based on the three-tier fair value hierarchy (in thousands):

	March 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents:				
Money market funds	$275,326	$—	$ —	$275,326
Commercial paper	—	488,627	—	488,627
Certificates of deposit	—	21,166	—	21,166
Short-term investments:				
Treasury bills	19,991	—	—	19,991
U.S. government securities	—	640,658	—	640,658
Agency securities	—	507,251	—	507,251
Corporate notes	—	659,779	—	659,779
Commercial paper	—	181,373	—	181,373
Certificates of deposit	—	539,697	—	539,697
Other current assets:				
Foreign currency forward contracts	—	3,951	—	3,951
Total	$295,317	$3,042,502	$ —	$3,337,819
Liabilities				
Other current liabilities:				
Foreign currency forward contracts	—	1,072	—	1,072
Total	$—	$1,072	$ —	$1,072

	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 7 – 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 March 31, 2016 was approximately $818.1 million and $806.1 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 March 31, 2016.

The Company held non-marketable investments in equity securities of privately-held companies that are accounted for using the cost method. These investments are included within Other Assets on the consolidated balance sheets. Such investments are reviewed periodically for impairment and are recorded at fair value in the period an impairment charge is recognized. If measured at fair value, these would generally be classified in Level 3 of the fair value hierarchy.

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 $333.1 million and $425.2 million at March 31, 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	March 31, 2016	December 31, 2015
Assets			
Foreign currency forward contracts not designated as hedging instruments	Other current assets	$3,951	6,804
Liabilities			
	Other current liabilities	1,072	3,005

Foreign currency forward contracts not designated as hedging instruments		
Total	$2,879	$ 3,799

The Company recognized $1.8 million of gains on the foreign currency contracts in the three months ended March 31, 2016. The realized gains and losses on the foreign currency forward contracts were not material in the three months ended March 31, 2015.

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, 2016	December 31, 2015
Property and equipment, net		
Equipment	$757,662	$720,421
Furniture and leasehold improvements	313,909	297,274
Capitalized software	228,858	211,241
Construction in progress	95,425	85,073
Total	1,395,854	1,314,009
Less: Accumulated depreciation and amortization	(649,141)	(578,710)
Property and equipment, net	$746,713	$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
Foreign currency translation adjustment	(195)
Balance as of March 31, 2016	$1,122,533

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
March 31, 2016:			
Patents and developed technologies	$132,437	$ (51,939)	$80,498
Publisher and advertiser relationships	75,300	(27,999)	47,301
Assembled workforce	1,960	(1,778)	182
Other intangible assets	2,100	(1,807)	293
Total	$211,797	$ (83,523)	$128,274
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 March 31, 2016 and 2015 was $12.7 million and $10.8 million, respectively.

Estimated future amortization expense as of March 31, 2016 is as follows (in thousands):

Remainder of 2016	$31,273
2017	29,281
2018	22,729
2019	15,134
2020	12,639
Thereafter	17,218
Total	$128,274

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):

	March 31, 2016	December 31, 2015
Accrued compensation	$79,075	$90,906
Accrued sales and marketing expenses	15,788	27,948
Accrued tax liabilities	25,537	25,880
Deferred revenue	18,878	23,674
Accrued publisher and ad network costs	20,146	23,486
Accrued fixed assets and maintenance	21,253	15,727
Accrued other	70,043	76,171
Total	$250,720	$283,792

Note 7. 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 2019 Notes and the 2021 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 March 31, 2016 and 2015, the Company recognized $1.2 million and $1.3 million, respectively, of interest expense related to the amortization of initial purchasers’ discount and debt issuance costs, and $3.0 million and $3.0 million, respectively, of accrued coupon interest expense.

For the three months ended March 31, 2016 and 2015, the Company recognized $19.2 million and $17.9 million, respectively, of interest expense related to the amortization of the debt discount. As of March 31, 2016, the net carrying value, net of the initial purchasers’ discount and debt discount, of 2019 Notes and 2021 Notes was $764.1 million and $711.4 million, respectively.

The Notes consisted of the following (in thousands):

	March 31, 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]	(170,879)	(242,608)	(181,994)	(251,911)
Net carrying amount	$764,121	$711,392	$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 March 31, 2016, the remaining life of the 2019 Notes and 2021 Notes is approximately 41 months and 65 months, respectively.

Note 8. 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 months ended March 31, 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 March 31,	
	2016	2015
Net loss	$(79,731)	$(162,442)
Basic shares:		
Weighted-average common shares outstanding	697,702	648,950
Weighted-average restricted stock subject to repurchase	(6,138)	(8,486)
Weighted-average shares used to compute basic net loss per share	691,564	640,464
Diluted shares:		
Weighted-average shares used to compute diluted net loss per share	691,564	640,464
Net loss per share attributable to common stockholders:		
Basic	$(0.12)	$(0.25)
Diluted	$(0.12)	$(0.25)

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 Months Ended March 31,	
	2016	2015
RSUs	66,876	61,425
Warrants	24,329	24,329
Stock options	9,914	18,069
Shares subject to repurchase and others	9,118	9,740

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 9. 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.

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.

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 three months ended March 31, 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	—	$ -
Vested	(428)	$ 30.49
Canceled	(113)	$ 33.33
Unvested restricted common stock at March 31, 2016	3,999	$ 34.26

Stock Option Activity

A summary of stock option activity for the three months ended March 31, 2016 is as follows (in thousands, except years and per share data):

	Options Outstanding			
	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2015	11,177	$ 6.55	5.86	$ 199,576
Options granted	100	$ 18.00		
Options exercised	(1,285)	$ 2.13		
Options canceled	(78)	$ 4.06		
Outstanding at March 31, 2016	9,914	$ 7.26	5.75	$ 115,057
Vested and expected to vest at March 31, 2016 [1]	9,124	$ 6.12	5.49	$ 111,067
Exercisable at March 31, 2016	7,474	$ 3.98	4.91	$ 98,761

[1] The expected to vest options are the result of applying pre-vesting forfeiture rate assumptions to unvested options outstanding.

The total intrinsic value of stock options exercised during the three months ended March 31, 2016 and 2015 was $19.8 million and $101.2 million, respectively.

Performance Restricted Stock Units (“PRSUs”) Activity

In February 2016, the Company granted PRSUs to certain of its executive officers and established the 2016 annual performance goals for these PRSUs. The PRSUs will vest based on the Company’s attainment of the annual financial performance goals and the executives’ continued employment through the vesting date, approximately one year. The number of shares that ultimately vest for 2016 will range from 0 percent to 200 percent of the annual target amount, based on the Company’s performance. The Company granted 208,333 PRSUs, at the 100% target level, for the 2016 performance goals with a grant date fair value of $18 per share. In addition, there are 458,333 additional PRSUs that will vest based on performance goals in 2017 to 2019 fiscal years. Since the performance targets for those additional PRSUs have not been established, they are not considered granted nor are presented as outstanding.

RSU Activity

The following table summarizes the activity related to the Company’s RSUs, excluding PRSUs, for the three months ended March 31, 2016. For purposes of this table, vested RSUs represent the shares for which the service condition had been fulfilled as of each respective date (in thousands, except per share data):

	RSUs Outstanding	
		Weighted-

	Shares	Average Grant-Date Fair Value Per Share
Unvested and outstanding at December 31, 2015	43,170	$ 32.46
Granted	33,156	$ 15.35
Vested	(4,874)	$ 29.95
Canceled	(4,576)	$ 34.44
Unvested and outstanding at March 31, 2016	66,876	$ 24.03

The total fair value of RSUs vested during the three months ended March 31, 2016 and 2015 was $92.6 million and $256.3 million, respectively.

Stock-Based Compensation Expense

Stock-based compensation expense is allocated based on the cost center to which the award holder belongs. Total stock-based compensation expense by function is as follows (in thousands):

	Three Months Ended March 31,	
	2016	2015
Cost of revenue	$7,968	$12,886
Research and development	75,579	103,036
Sales and marketing	46,101	42,658
General and administrative	21,268	24,225
Total stock-based compensation expense	$150,916	$182,805

The Company capitalized $22.6 million and $16.5 million of stock-based compensation expense associated with the cost for developing software for internal use in the three months ended March 31, 2016 and 2015, respectively.

As of March 31, 2016, there was $1.25 billion of unamortized stock-based compensation expense related to unvested awards which is expected to be recognized over a weighted-average period of 2.35 years.

Note 10. Income Taxes

The Company is subject to taxation in the United States and various state and foreign jurisdictions. Earnings from non-US activities are subject to local country income tax. The material jurisdictions in which the Company is subject to potential examination by taxing authorities include the United States, California and Ireland. The Company is currently under a Federal income tax examination by the Internal Revenue Service (IRS) for tax years 2011, 2012 and 2013. The Company believes that adequate amounts have been reserved in these jurisdictions. The Company does not provide for federal income taxes on the undistributed earnings of its foreign subsidiaries as such earnings are to be reinvested indefinitely outside the U.S. The Company computes its quarterly income tax provision by using a forecasted annual effective tax rate and adjusts for any discrete items arising during the quarter.

The Company recorded an income tax provision of $2.0 million and $0.6 million for the three months ended March 31, 2016 and 2015, respectively. As of March 31, 2016, based on the available objective evidence, management believes it is more likely than not that the tax benefits of the U.S. losses incurred during the three months ended March 31, 2016 will not be realized by the end of the 2016 fiscal year. Accordingly, the Company did not record the tax benefits of the U.S. losses incurred during the three months ended March 31, 2016. The primary difference between the effective tax rate and the federal statutory tax rate relates to the valuation allowances on the Company’s net operating losses and foreign tax rate differences.

On July 27, 2015, the United States Tax Court issued an opinion (Altera Corp. et al. v. Commissioner), which invalidated the 2003 final Treasury rule that requires participants in qualified cost-sharing arrangements to share stock-based compensation costs. As such, the Company filed its 2014 federal tax return based upon the opinion rendered in this case, which resulted in an increase in the 2014 net operating loss in the U.S. jurisdiction. As the Company maintains a full valuation allowance on its US deferred tax assets, no benefit was realized in the financial statements as a result of this filing position.

During the three months ended March 31, 2016, the amount of gross unrecognized tax benefits increased by $11.6 million. As of March 31, 2016, the Company has $221.0 million of unrecognized tax benefits, including $219.1 million of unrecognized tax benefits which, if recognized, will not affect the annual effective tax rate as these unrecognized tax benefits would increase deferred tax assets which would be subject to a full valuation allowance, and the remaining $1.9 million of unrecognized tax benefits which, if recognized, would affect the annual effective tax rate.

Note 11. Commitments and Contingencies

Credit Facility

The Company has a revolving credit agreement with certain lenders, which provides for a $1.0 billion revolving unsecured credit facility maturing on October 22, 2018. The Company is obligated to pay interest on loans under the credit facility and other customary fees for a credit facility of this size and type, including an upfront fee and an unused commitment fee. Obligations under the credit facility are guaranteed by one of the Company’s wholly-owned subsidiaries. In addition, the credit facility contains restrictions on payments including cash payments of dividends.

As of March 31, 2016, no amounts had been drawn under the credit facility.

Leases

The Company has entered into various non-cancelable operating lease agreements for certain offices and data center facilities with contractual lease periods expiring between 2016 and 2026. Under the terms of certain leases, the Company is committed to pay for certain taxes, insurance, maintenance and management expenses. Certain of these arrangements have free rent periods or escalating rent payment provisions, and the Company recognizes rent expense under such arrangements on a straight-line basis.

Legal Proceedings

The Company is currently involved in, and will likely in the future be involved in, legal proceedings, claims and investigations in the normal course of business. Legal fees and other costs associated with such actions are expensed as incurred. The Company assesses, in conjunction with its legal counsel, the need to record a liability for litigation and contingencies. Litigation accruals are recorded when and if it is determined that a loss related matter is both probable and reasonably estimable. Material loss contingencies that are reasonably possible of occurrence, if any, are subject to disclosure. As of March 31, 2016 and December 31, 2015, there was no litigation or contingency with at least a reasonable possibility of a material loss. No material losses have been recorded during the three months ended March 31, 2016 and 2015 with respect to litigation or loss contingencies.

Indemnification

In the ordinary course of business, the Company often includes standard indemnification provisions in its arrangements with its customers, partners, suppliers and vendors. Pursuant to these provisions, the Company may be obligated to indemnify such parties for losses or claims suffered or incurred in connection with its service, breach of representations or covenants, intellectual property infringement or other claims made against such parties. These provisions may limit the time within which an indemnification claim can be made. It is not possible to determine the maximum potential amount under these indemnification obligations due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. The Company has never incurred significant expense defending its licensees against third party claims, nor has it ever incurred significant expense under its standard service warranties or arrangements with its customers, partners, suppliers and vendors. Accordingly, the Company had no liabilities recorded for these provisions as of March 31, 2016 and December 31, 2015.

Note 12. Operations by Geographic Area

Revenue

Revenue by geography is based on the billing addresses of the customers. The following table sets forth revenue by services and revenue by geographic area (in thousands):

	Three Months Ended March 31,	
	2016	2015
Revenue by services:		
Advertising services	$530,741	$388,211
Data licensing and other	63,780	47,728
Total revenue	$594,521	$435,939

	Three Months Ended March 31,	
	2016	2015
Revenue by geographic area:		
United States	$390,267	$288,928
International	204,254	147,011
Total revenue	$594,521	$435,939

No individual country from the international markets contributed in excess of 10% of the total revenue for the three months ended March 31, 2016 and 2015.

Property and Equipment, net

The following table sets forth property and equipment, net by geographic area (in thousands):

	March 31, 2016	December 31, 2015
Property and equipment, net:		
United States	$692,333	$683,176
International	54,380	52,123
Total property and equipment, net	$746,713	$735,299

Note 13. Related Party Transactions

In September 2015, the Company entered into a partnership agreement for no consideration with Square, Inc., for which Jack Dorsey (the Company's Chief Executive Officer) serves as Chief Executive Officer, to enable U.S. political donations through Tweets. Neither Square, Inc. nor the Company will pay each other any amounts in connection with the agreement.

On October 22, 2015, the Company and 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, entered into a Contribution Agreement that the Jack Dorsey Trust will give back and contribute to Twitter, without any cost or charge, an aggregate of 6,814,085 shares of Twitter's common stock. Upon the Company's stockholders approval of an equity incentive plan at the annual meeting of stockholders to be held in May 2016, the same number of shares will be granted over time to employees and other service providers. The contribution will be recorded as a treasury stock transaction in stockholders' equity when and if approved by the Company's stockholders.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes thereto included in Item 1 "Financial Statements" in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in the section titled "Risk Factors" included elsewhere in this Quarterly Report on Form 10-Q.

Overview and Highlights of Quarterly Results

Revenue in the first quarter of 2016 totaled $594.5 million, an increase of 36% compared to $435.9 million in the first quarter of 2015.

- Advertising revenue totaled $530.7 million, an increase of 37% year-over-year.

  - Excluding the impact of year-over-year changes in foreign exchange rates, advertising revenue would have increased 39%.
- Mobile advertising revenue was 88% of total advertising revenue.

- Data licensing and other revenue totaled $63.8 million, an increase of 34% year-over-year.

- U.S. revenue totaled $390.3 million, an increase of 35% year-over-year.

- International revenue totaled $204.3 million, an increase of 39% year-over-year.

  - Excluding the impact of year-over-year changes in foreign exchange rates, international revenue would have increased 46%.

Net loss was $79.7 million and Adjusted EBITDA was $180.5 million, an increase of 73% compared to the first quarter of 2015, representing an Adjusted EBITDA margin of 30%.

Cash, cash equivalents and short-term investments in marketable securities totaled $3.58 billion as of March 31, 2016.

Average monthly active users (MAUs) were 310 million for the three months ended March 31, 2016, up 3% year-over-year and compared to 305 million for the three months ended December 31, 2015. Mobile MAUs represented 83% of total MAUs.

For 2016 we have five priorities around our service with an emphasis on what Twitter does best: live. These service priorities are: (1) refining our core service; (2) live streaming video; (3) creators and influencers; (4) safety; and (5) developers. Each is critical to strengthening our platform and audience and we made meaningful progress across each in the first quarter of 2016. During the first quarter of 2016, we saw a return to sequential growth in monthly active usage driven by seasonality and marketing initiatives. We also saw deepening engagement (Tweets, likes, replies and Retweets) driven by a few important feature launches including the enhancements to the timeline and Twitter-Periscope integration.

We also focused on our three main objectives for our ads business: (1) building a rich canvas for marketers; (2) driving marketer ROI with improvement measurement, bidding and relevance; and (3) increasing scale by leveraging Twitter's unique total audience. We had several new feature launches around video, including First View, which helps a marketer achieve significant audience reach with exclusive placement at the top ad slot in Twitter's timelines for a 24-hour period; dynamic product ads powered by the TellApart technology; and our expanded beta of logged-out ads on desktop globally with mobile-web to come in the second quarter of 2016.

We expect to continue to invest in our products, features and services with an emphasis on live throughout 2016.

Key Metrics

We review a number of metrics, including the following key metrics, to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans and make strategic decisions:

Monthly Active Users (MAUs). We define MAUs as Twitter users who logged in or were otherwise authenticated and accessed Twitter through our website, mobile website, desktop or mobile applications, SMS or registered third-party applications or websites in the 30-day period ending on the date of measurement. Average MAUs for a period represent the average of the MAUs at the end of each month during the period. MAUs are a measure of the size of our logged in or otherwise authenticated active user base. In the three months ended March 31, 2016, we had 310 million average MAUs, which represents an increase of 3% from the three months ended March 31, 2015. The growth in average MAUs was driven primarily by growth initiatives. In the three months ended March 31, 2016, we had 65 million average MAUs in the United States and 245 million average MAUs in the rest of the world, which represent no change and an increase of 4%, respectively, from the three months ended March 31, 2015. For additional information on how we calculate the number of MAUs and factors that can affect this metric, see the section titled "Note Regarding Key Metrics."

Changes in Ad Engagements and Cost Per Ad Engagement. We define an ad engagement as a user interaction with one of our pay-for-performance advertising products. Ad engagements with our advertising products are based on a user completing an objective set out by an advertiser such as expanding, Retweeting, liking or replying to a Promoted Tweet, viewing an embedded video, downloading or engaging with a promoted mobile application, clicking on a website link, signing up for marketing emails from advertisers, following the account that tweets a Promoted Tweet, or completing a transaction on an external website. We believe changes in ad engagements are one way to measure user engagement with our advertising products. We believe changes in cost per ad engagement are one way to measure demand.

In the three months ended March 31, 2016, ad engagements increased 208% from the three months ended March 31, 2015. The increase was driven by the adoption of auto-play video and increases in ad load in the first quarter of 2016 compared to the first quarter of 2015. In the three months ended March 31, 2016, average cost per ad engagement decreased 56% from the three months ended March 31, 2015. The decrease in cost per ad engagement was primarily driven by a mix shift to auto-play video, partially offset by an increase in same-format prices for some of our advertising products.

Non-GAAP Financial Measures

To supplement our consolidated financial statements presented in accordance with generally accepted accounting principles in the United States, or GAAP, we consider certain financial measures that are not prepared in accordance with GAAP, including Adjusted EBITDA, non-GAAP net income, revenue excluding foreign exchange effect and advertising revenue excluding foreign exchange effect. To present revenue and advertising revenue excluding the impact of changes in foreign exchange rates for the three months ended March 31, 2016, we translated revenue and advertising revenue using the prior year's monthly exchange rates for our settlement currencies other than the U.S. dollar. These non-GAAP financial measures are not based on any standardized methodology prescribed by GAAP and are not necessarily comparable to similarly-titled measures presented by other companies.

Adjusted EBITDA

We define Adjusted EBITDA as net loss adjusted to exclude stock-based compensation expense, depreciation and amortization expense, interest and other expenses, provision (benefit) for income taxes and restructuring charges, if any.

The following table presents a reconciliation of net loss to Adjusted EBITDA for each of the periods indicated (in thousands):

	Three Months Ended March 31,	
	2016	2015
Reconciliation of Net Loss to Adjusted EBITDA		
Net loss	$(79,731)	$(162,442)
Stock-based compensation expense	150,916	182,805
Depreciation and amortization expense	88,621	67,864
Interest and other expense, net	18,587	15,194
Provision for income taxes	2,028	632
Restructuring charges	47	—
Adjusted EBITDA	$180,468	$104,053

Non-GAAP Net Income

We define non-GAAP net income as net loss adjusted to exclude stock-based compensation expense, amortization of acquired intangible assets, non-cash interest expense related to our convertible notes, non-cash expense related to acquisitions, income tax effects related to acquisitions and restructuring charges, if any.

The following table presents a reconciliation of net loss to non-GAAP net income for each of the periods indicated (in thousands):

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Reconciliation of Net Loss to Non-GAAP Net Income		
Net loss	$(79,731)	$(162,442)
Stock-based compensation expense	150,916	182,805
Amortization of acquired intangible assets	12,730	10,795
Non-cash interest expense related to convertible notes	18,370	16,638
Income tax effects related to acquisitions	391	(1,288)
Restructuring charges	47	—
Non-GAAP net income	$102,723	$46,508

We use the non-GAAP financial measures of Adjusted EBITDA and non-GAAP net income in evaluating our operating results and for financial and operational decision-making purposes. We believe that Adjusted EBITDA and non-GAAP net income help identify underlying trends in our business that could otherwise be masked by the effect of the expenses that we exclude in Adjusted EBITDA and non-GAAP net income. We believe that Adjusted EBITDA and non-GAAP net income provide useful information about our operating results, enhance the overall understanding of our past performance and future prospects and allow for greater transparency with respect to key metrics used by our management in its financial and operational decision-making.

These non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. There are a number of limitations related to the use of these non-GAAP financial measures rather than net loss, which is the nearest GAAP equivalent of these financial measures. Some of these limitations are:

- These non-GAAP financial measures exclude certain recurring, non-cash charges such as stock-based compensation expense, amortization of acquired intangible assets and non-cash interest expense related to convertible notes;
- Stock-based compensation expense has been, and will continue to be for the foreseeable future, a significant recurring expense in our business and an important part of our compensation strategy;
- Adjusted EBITDA does not reflect tax payments that reduce cash available to us;
- Adjusted EBITDA excludes depreciation and amortization expense and although these are non-cash charges, the property and equipment being depreciated and amortized may have to be replaced in the future; and
- The expenses that we exclude in our calculation of these non-GAAP financial measures may differ from the expenses, if any, that our peer companies may exclude from similarly-titled non-GAAP measures when they report their results of operations.

Results of Operations

The following tables set forth our consolidated statement of operations data for each of the periods presented (in thousands):

	Three Months Ended March 31,	
	2016	2015
Revenue		
Advertising services	$530,741	$388,211
Data licensing and other	63,780	47,728
Total Revenue	594,521	435,939
Costs and expenses [1]		
Cost of revenue	198,405	143,475
Research and development	155,794	189,746
Sales and marketing	236,171	183,557
General and administrative	63,267	65,777
Total costs and expenses	653,637	582,555
Loss from operations	(59,116)	(146,616)
Interest expense	(24,893)	(24,319)
Other income (expense), net	6,306	9,125
Loss before income taxes	(77,703)	(161,810)
Provision for income taxes	2,028	632
Net loss	$(79,731)	$(162,442)

[1] Costs and expenses include stock-based compensation expense as follows (in thousands):

	Three Months Ended March 31,	
	2016	2015
Cost of revenue	$7,968	$12,886
Research and development	75,579	103,036
Sales and marketing	46,101	42,658
General and administrative	21,268	24,225
Total stock-based compensation expense	$150,916	$182,805

The following table sets forth our consolidated statement of operations data for each of the periods presented as a percentage of revenue:

Three Months Ended March 31,

	2016		2015	
Revenue				
Advertising services	89	%	89	%
Data licensing and other	11		11	
Total Revenue	100			