

TWITTER, INC.
Form 10-Q
August 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 June 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 (I.R.S. Employer

incorporation or organization) Identification No.)

1355 Market Street, Suite 900

San Francisco, California 94103

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(Address of principal executive offices and Zip Code)

(415) 222-9670

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

The number of shares of the registrant's common stock outstanding as of July 26, 2016 was 707,726,943.

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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 expressions that concern our expectations, strategy, plans or intentions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- our ability to attract and retain users and increase the level of engagement, including ad engagement, of our users;
- 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 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. 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.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

TWITTER, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

(Unaudited)

| | June 30, 2016 | December 31, 2015 |
|---|--------------------|-------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$947,710 | \$911,471 |
| Short-term investments | 2,640,448 | 2,583,877 |
| Accounts receivable, net of allowance for doubtful accounts of \$8,894 and \$8,121 as of June 30, 2016 and December 31, 2015, respectively | 556,781 | 638,694 |
| Prepaid expenses and other current assets | 237,100 | 247,750 |
| Total current assets | 4,382,039 | 4,381,792 |
| Property and equipment, net | 758,837 | 735,299 |
| Intangible assets | 127,770 | 141,015 |
| Goodwill | 1,186,303 | 1,122,728 |
| Other assets | 161,865 | 61,605 |
| Total assets | \$6,616,814 | \$6,442,439 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$91,415 | \$134,081 |
| Accrued and other current liabilities | 277,188 | 283,792 |
| Capital leases, short-term | 81,035 | 88,166 |
| Total current liabilities | 449,638 | 506,039 |
| Convertible notes | 1,496,440 | 1,455,095 |
| Capital leases, long-term | 43,253 | 59,695 |
| Deferred and other long-term tax liabilities, net | 7,769 | 2,978 |
| Other long-term liabilities | 62,861 | 50,585 |
| Total liabilities | 2,059,961 | 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; 706,300 and 694,132 shares issued and outstanding as of June 30, 2016 and December 31, 2015, respectively | 3 | 3 |
| Additional paid-in capital | 6,881,778 | 6,507,087 |

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| | | |
|--|--------------|--------------|
| Accumulated other comprehensive loss | (44,503) | (45,566) |
| Accumulated deficit | (2,280,425) | (2,093,477) |
| Total stockholders' equity | 4,556,853 | 4,368,047 |
| Total liabilities and stockholders' equity | \$6,616,814 | \$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 | | Six Months Ended | |
|---|--------------------|-------------|------------------|--------------|
| | June 30, | | June 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Revenue | \$601,958 | \$502,383 | \$1,196,479 | \$938,322 |
| Costs and expenses | | | | |
| Cost of revenue | 202,966 | 167,623 | 401,371 | 311,098 |
| Research and development | 178,511 | 198,907 | 334,305 | 388,653 |
| Sales and marketing | 236,619 | 201,948 | 472,790 | 385,505 |
| General and administrative | 70,238 | 64,909 | 133,505 | 130,686 |
| Total costs and expenses | 688,334 | 633,387 | 1,341,971 | 1,215,942 |
| Loss from operations | (86,376) | (131,004) | (145,492) | (277,620) |
| Interest expense | (24,934) | (24,437) | (49,827) | (48,756) |
| Other income (expense), net | 6,734 | (695) | 13,040 | 8,430 |
| Loss before income taxes | (104,576) | (156,136) | (182,279) | (317,946) |
| Provision (benefit) for income taxes | 2,641 | (19,473) | 4,669 | (18,841) |
| Net loss | \$(107,217) | \$(136,663) | \$(186,948) | \$(299,105) |
| Net loss per share attributable to common stockholders: | | | | |
| Basic | \$(0.15) | \$(0.21) | \$(0.27) | \$(0.46) |
| Diluted | \$(0.15) | \$(0.21) | \$(0.27) | \$(0.46) |
| Weighted-average shares used to compute net loss | | | | |
| per share attributable to common stockholders: | | | | |
| Basic | 698,326 | 655,721 | 694,959 | 648,143 |
| Diluted | 698,326 | 655,721 | 694,959 | 648,143 |

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 | | Six Months Ended | |
|--|--------------------|-------------|------------------|-------------|
| | June 30, | | June 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Net loss | \$(107,217) | \$(136,663) | \$(186,948) | \$(299,105) |
| Other comprehensive income (loss): | | | | |
| Change in unrealized gain (loss) on investments in available-for-sale securities, net of tax | (961) | (515) | 3,481 | 55 |
| Change in foreign currency translation adjustment | (13,052) | 10,637 | (2,418) | (22,865) |
| Net change in accumulated other comprehensive loss | (14,013) | 10,122 | 1,063 | (22,810) |
| Comprehensive loss | \$(121,230) | \$(126,541) | \$(185,885) | \$(321,915) |

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

TWITTER, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

| | Six Months Ended June | |
|--|-----------------------|--------------|
| | 30, | |
| | 2016 | 2015 |
| Cash flows from operating activities | | |
| Net loss | \$(186,948) | \$(299,105) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 181,904 | 143,913 |
| Stock-based compensation expense | 318,611 | 357,948 |
| Amortization of discount on convertible notes | 36,940 | 33,644 |
| Changes in bad debt provision | 2,573 | 3,345 |
| Deferred income tax | 45 | (24,306) |
| Other adjustments | 5,268 | (5,197) |
| Changes in assets and liabilities, net of assets acquired and liabilities assumed from acquisitions: | | |
| Accounts receivable | 86,213 | (43,944) |
| Prepaid expenses and other assets | (16,985) | (7,861) |
| Accounts payable | (37,085) | (11,437) |
| Accrued and other liabilities | (13,216) | 35,160 |
| Net cash provided by operating activities | 377,320 | 182,160 |
| Cash flows from investing activities | | |
| Purchases of property and equipment | (98,235) | (160,340) |
| Purchases of marketable securities | (1,330,946) | (2,235,497) |
| Proceeds from maturities of marketable securities | 1,232,249 | 1,342,137 |
| Proceeds from sales of marketable securities | 42,416 | 335,261 |
| Changes in restricted cash | (590) | (3,797) |
| Purchases of investments in privately-held companies | (78,002) | (5,500) |
| Business combinations, net of cash acquired | (80,142) | (26,300) |
| Other investing activities | (81) | (1,500) |
| Net cash used in investing activities | (313,331) | (755,536) |
| Cash flows from financing activities | | |
| Taxes paid related to net share settlement of equity awards | (6,994) | (6,480) |
| Repayments of capital lease obligations | (48,740) | (62,934) |
| Proceeds from exercise of stock options | 6,208 | 6,962 |
| Proceeds from issuances of common stock under employee stock purchase plan | 15,821 | 21,600 |
| Other financing activities | 22 | — |
| Net cash used in financing activities | (33,683) | (40,852) |
| Net increase (decrease) in cash and cash equivalents | 30,306 | (614,228) |
| Foreign exchange effect on cash and cash equivalents | 5,933 | (13,189) |
| Cash and cash equivalents at beginning of period | 911,471 | 1,510,724 |
| Cash and cash equivalents at end of period | \$947,710 | \$883,307 |
| Supplemental disclosures of non-cash investing and financing activities | | |

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| | | |
|---|----------|-----------|
| Common stock issued in connection with acquisitions | \$644 | \$516,538 |
| Equipment purchases under capital leases | \$25,922 | \$10,544 |
| Changes in accrued property and equipment purchases | \$10,938 | \$9,087 |

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 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.

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

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

| | June 30, 2016 | December 31, 2015 |
|--|------------------|-------------------------|
| Cash and cash equivalents: | | |
| Cash | \$247,449 | \$300,363 |
| Money market funds | 288,807 | 141,700 |
| Commercial paper and certificates of deposit | 411,454 | 469,408 |
| Total cash and cash equivalents | \$947,710 | \$911,471 |
| Short-term investments: | | |
| U.S. government and agency securities including treasury bills | \$1,122,988 | \$1,156,418 |
| Corporate notes, commercial paper and certificates of deposit | 1,517,460 | 1,427,459 |
| Total short-term investments | \$2,640,448 | \$2,583,877 |

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

| | June 30, 2016 |
|--------------------------------------|------------------|
| Due within one year | \$ 2,228,799 |
| Due after one year through two years | 411,649 |
| Total | \$ 2,640,448 |

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):

| | June 30, 2016 | | | |
|---|-----------------------|------------------------|-------------------------|---------------------------------|
| | Gross Amortized Costs | Gross Unrealized Gains | Gross Unrealized Losses | Aggregated Estimated Fair Value |
| U.S. government and agency securities including | | | | |
| treasury bills | \$1,122,272 | \$ 759 | \$ (43) | \$1,122,988 |
| Corporate notes, commercial paper and | | | | |
| certificates of deposit | 1,516,626 | 943 | (109) | 1,517,460 |
| Total available-for-sale securities classified as | \$2,638,898 | \$ 1,702 | \$ (152) | \$2,640,448 |

| | December 31, 2015 | | | Aggregated Estimated Fair Value |
|---|-----------------------------|------------------------------|-------------------------------|---------------------------------------|
| | Gross Amortized Costs | Gross Unrealized Gains | Gross Unrealized Losses | |
| short-term investments | | | | |
| 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 June 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 June 30, 2016 and December 31, 2015 based on the three-tier fair value hierarchy (in thousands):

| | June 30, 2016 | | | Total |
|------------------------------------|------------------|--------------------|-------------|--------------------|
| | Level 1 | Level 2 | Level 3 | |
| Assets | | | | |
| Cash equivalents: | | | | |
| Money market funds | \$288,807 | \$— | \$ — | \$288,807 |
| Commercial paper | — | 408,536 | — | 408,536 |
| Certificates of deposit | — | 2,918 | — | 2,918 |
| Short-term investments: | | | | |
| U.S. government securities | — | 517,536 | — | 517,536 |
| Agency securities | — | 605,452 | — | 605,452 |
| Corporate notes | — | 688,720 | — | 688,720 |
| Commercial paper | — | 248,663 | — | 248,663 |
| Certificates of deposit | — | 580,077 | — | 580,077 |
| Other current assets: | | | | |
| Foreign currency forward contracts | — | 1,592 | — | 1,592 |
| Total | \$288,807 | \$3,053,494 | \$ — | \$3,342,301 |
| Liabilities | | | | |
| Other current liabilities: | | | | |
| Foreign currency forward contracts | — | 5,306 | — | 5,306 |
| Total | \$— | \$5,306 | \$ — | \$5,306 |

| | December 31, 2015 | | | Total |
|----------------------------|-------------------|---------|---------|-----------|
| | Level 1 | Level 2 | Level 3 | |
| 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 |

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| | | | | |
|------------------------------------|-----------|-------------|------|-------------|
| 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 June 30, 2016 was approximately \$857.4 million and \$852.8 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 June 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 \$324.3 million and \$425.2 million at June 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):

| | | June 30, 2016 | December 31, 2015 |
|--|---------------------------|---------------------|-------------------------|
| | Balance Sheet Location | | |
| Assets | | | |
| Foreign currency forward contracts not designated as hedging instruments | Other current assets | \$ 1,592 | 6,804 |
| Liabilities | | | |
| Foreign currency forward contracts not designated as hedging instruments | Other current liabilities | 5,306 | 3,005 |
| Total fair value of derivative instruments | | \$(3,714) | \$ 3,799 |

The Company recognized \$6.5 million and \$4.7 million of losses on the foreign currency contracts in the three and six months ended June 30, 2016, respectively. The recognized gains and losses on the foreign currency forward contracts were not material in the three and six months ended June 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):

| | June 30, 2016 | December 31, 2015 |
|---|------------------|-------------------------|
| Property and equipment, net | | |
| Equipment | \$ 803,247 | \$ 720,421 |
| Furniture and leasehold improvements | 323,088 | 297,274 |
| Capitalized software | 257,667 | 211,241 |
| Construction in progress | 95,674 | 85,073 |
| Total | 1,479,676 | 1,314,009 |
| Less: Accumulated depreciation and amortization | (720,839) | (578,710) |
| Property and equipment, net | \$ 758,837 | \$ 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 | (6,169) |
| Balance as of June 30, 2016 | \$ 1,186,303 |

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 |
|--|----------------------------|-----------------------------|--------------------------|
| June 30, 2016: | | | |
| Patents and developed technologies | \$ 144,708 | \$ (60,160) | \$ 84,548 |
| Publisher and advertiser relationships | 75,300 | (32,195) | 43,105 |
| Assembled workforce | 1,960 | (1,843) | 117 |
| Other intangible assets | 2,100 | (2,100) | — |
| Total | \$ 224,068 | \$ (96,298) | \$ 127,770 |
| 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 June 30, 2016 and 2015 was \$12.8 million and \$14.0 million, respectively, and for the six months ended June 30, 2016 and 2015 was \$25.5 million and \$24.8 million, respectively.

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

| | |
|-------------------|-----------|
| Remainder of 2016 | \$ 22,166 |
| 2017 | 35,178 |
| 2018 | 25,466 |
| 2019 | 15,116 |

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| | |
|------------|-----------|
| 2020 | 12,626 |
| Thereafter | 17,218 |
| Total | \$127,770 |

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):

| | June 30, 2016 | December 31, 2015 |
|--|------------------|-------------------------|
| Accrued compensation | \$75,181 | \$90,906 |
| Accrued sales and marketing expenses | 14,869 | 27,948 |
| Accrued tax liabilities | 24,757 | 25,880 |
| Deferred revenue | 25,302 | 23,674 |
| Accrued publisher and ad network costs | 20,050 | 23,486 |
| Accrued fixed assets and maintenance | 33,364 | 15,727 |
| Accrued other | 83,665 | 76,171 |
| Total | \$277,188 | \$283,792 |

Note 7. Acquisitions and Other Investments

2016 Acquisitions

During the six months ended June 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 June 30, 2016, there were no variable interest entities required to be consolidated in the Company's Consolidated Financial Statements. As of June 30, 2016 and December 31, 2015, the Company's

investments in privately-held companies that are accounted for using the cost method had a carrying value of \$90.2 million and \$14.2 million, respectively. The maximum loss the Company can incur for its investments is their carrying value. These cost method investments 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 investment 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 June 30, 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 six months ended June 30, 2016 and 2015, the Company recognized \$2.4 million and \$2.6 million, respectively, of interest expense related to the amortization of initial purchasers' discount and debt issuance costs, and \$6.0 million and \$6.0 million, respectively, of accrued coupon interest expense.

For the three months ended June 30, 2016 and 2015, the Company recognized \$19.7 million and \$18.6 million, respectively, of interest expense related to the amortization of the debt discount. For the six months ended June 30, 2016 and 2015, the Company recognized \$38.9 million and \$36.5 million, respectively, of interest expense related to the amortization of the debt discount. As of June 30, 2016, the net carrying value, net of the initial purchasers' discount and debt discount, of 2019 Notes and 2021 Notes was \$775.5 million and \$720.9 million, respectively.

The Notes consisted of the following (in thousands):

| | June 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⁾ | (159,493) | (233,067) | (181,994) | (251,911) |
| Net carrying amount | \$775,507 | \$720,933 | \$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 June 30, 2016, the remaining life of the 2019 Notes and 2021 Notes is approximately 38 months and 62 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 six months ended June 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.

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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 June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|-------------|------------------------------|-------------|
| | 2016 | 2015 | 2016 | 2015 |
| Net loss | \$(107,217) | \$(136,663) | \$(186,948) | \$(299,105) |
| Basic shares: | | | | |
| Weighted-average common shares outstanding | 704,174 | 663,555 | 700,920 | 656,291 |
| Weighted-average restricted stock | | | | |
| subject to repurchase | (5,848) | (7,834) | (5,961) | (8,148) |
| Weighted-average shares used to compute | | | | |
| basic net loss per share | 698,326 | 655,721 | 694,959 | 648,143 |
| Diluted shares: | | | | |
| Weighted-average shares used to compute | | | | |
| diluted net loss per share | 698,326 | 655,721 | 694,959 | 648,143 |
| Net loss per share attributable to common stockholders: | | | | |
| Basic | \$(0.15) | \$(0.21) | \$(0.27) | \$(0.46) |
| Diluted | \$(0.15) | \$(0.21) | \$(0.27) | \$(0.46) |

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 Six Months Ended June 30, | |
|---|---|--------|
| | 2016 | 2015 |
| RSUs | 58,806 | 55,419 |
| Warrants | 24,329 | 24,329 |
| Stock options | 9,340 | 18,315 |
| Shares subject to repurchase and others | 10,457 | 10,387 |

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 six months ended June 30, 2016, employees purchased an aggregate of 1.3 million shares under the ESPP at a price of \$11.99 per share. During the six months ended June 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 June 30, 2016 and 2015, the Company recorded \$5.7 million and \$4.2 million, respectively, and recorded \$11.4 million and \$8.1 million during the six months ended June 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 six months ended June 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 | (1,125) | \$ 32.03 |
| Canceled | (128) | \$ 33.37 |
| Unvested restricted common stock at June 30, 2016 | 6,090 | \$ 26.16 |

Stock Option Activity

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

| | Options Outstanding | | | Aggregate Intrinsic Value |
|---|------------------------|--|--|---------------------------------|
| | Number of Shares | Weighted- Average Exercise Price Per Share | Weighted- Average Remaining Contractual Life (in years) | |
| Outstanding at December 31, 2015 | 11,177 | \$ 6.55 | 5.86 | \$ 199,576 |
| Options granted and assumed in connection with acquisitions | 556 | \$ 3.23 | | |
| Options exercised | (2,304) | \$ 2.60 | | |
| Options canceled | (89) | \$ 4.13 | | |
| Outstanding at June 30, 2016 | 9,340 | \$ 7.35 | 5.79 | \$ 111,670 |
| Vested and expected to vest at | | | | |
| June 30, 2016 ⁽¹⁾ | 8,500 | \$ 6.34 | 5.49 | \$ 105,986 |
| Exercisable at June 30, 2016 | 6,864 | \$ 4.29 | 4.82 | \$ 92,119 |

⁽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 June 30, 2016 and 2015 was \$12.4 million and \$39.4 million, respectively, and \$32.2 million and \$140.6 million during the six months ended June 30, 2016 and 2015, respectively.

Performance Restricted Stock Units (“PRSUs”) Activity

In 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. During the six months ended June 30, 2016, the Company granted 230,833 PRSUs, at the 100% target level, for the 2016 performance goals with a weighted grant date fair value of \$17.90 per share. In addition, there are 885,833 additional PRSUs that will vest based on performance goals in 2017 to 2019, if achieved. 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 six months ended June 30, 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

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| | Shares | Weighted-Average Grant-Date Fair Value Per Share |
|---|----------|--|
| Unvested and outstanding at December 31, 2015 | 43,170 | \$ 32.46 |
| Granted | 36,413 | \$ 15.27 |
| Vested | (12,767) | \$ 25.50 |
| Canceled | (8,010) | \$ 30.18 |
| Unvested and outstanding at June 30, 2016 | 58,806 | \$ 23.64 |

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The total fair value of RSUs vested during the three months ended June 30, 2016 and 2015 was \$119.8 million and \$248.1 million, respectively, and \$212.4 million and \$504.4 million during the six months ended June 30, 2016 and 2015, 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 | | Six Months Ended | |
|---|--------------------|------------------|------------------|------------------|
| | June 30, 2016 | 2015 | June 30, 2016 | 2015 |
| Cost of revenue | \$7,858 | \$10,486 | \$15,826 | \$23,372 |
| Research and development | 90,916 | 103,121 | 166,495 | 206,157 |
| Sales and marketing | 45,856 | 39,607 | 91,957 | 82,265 |
| General and administrative | 23,065 | 21,929 | 44,333 | 46,154 |
| Total stock-based compensation expense | \$167,695 | \$175,143 | \$318,611 | \$357,948 |

The Company capitalized \$17.9 million and \$13.3 million of stock-based compensation expense associated with the cost for developing software for internal use in the three months ended June 30, 2016 and 2015, respectively, and \$40.5 million and \$29.8 million in the six months ended June 30, 2016 and 2015, respectively.

As of June 30, 2016, there was \$1.13 billion of unamortized stock-based compensation expense related to unvested awards which is expected to be recognized over a weighted-average period of 2.23 years.

Note 11. 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 \$2.6 million and \$4.7 million for the three and six months ended June 30, 2016, respectively, and an income tax benefit of \$19.5 million and \$18.8 million for the three and six months ended June 30, 2015, respectively. As of June 30, 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 six months ended June 30, 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 six months ended June 30, 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 and six months ended June 30, 2016, the amount of gross unrecognized tax benefits increased by \$13.1 million and \$24.7 million, respectively. As of June 30, 2016, the Company has \$234.2 million of unrecognized tax benefits, including \$230.5 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, while the remaining \$3.7 million of unrecognized tax benefits which, if recognized, would affect the annual effective tax rate.

Note 12. 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 June 30, 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 June 30, 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 and six months ended June 30, 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 June 30, 2016 and December 31, 2015.

Note 13. 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 June 30, | | Six Months Ended June 30, | |
|------------------------------------|--------------------------------|-----------|------------------------------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| Revenue by services: | | | | |
| Advertising services | \$534,524 | \$452,278 | \$1,065,265 | \$840,489 |
| Data licensing and other | 67,434 | 50,105 | 131,214 | 97,833 |
| Total revenue | \$601,958 | \$502,383 | \$1,196,479 | \$938,322 |
| | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Revenue by geographic area: | | | | |
| United States | \$360,676 | \$321,191 | \$750,943 | \$610,119 |
| International | 241,282 | 181,192 | 445,536 | 328,203 |
| Total revenue | \$601,958 | \$502,383 | \$1,196,479 | \$938,322 |

No individual country from the international markets contributed in excess of 10% of the total revenue for the three months ended June 30, 2015 and the six months ended June 30, 2016 and 2015. Japan accounted for \$61.2 million, or 10%, of total revenue for the three months ended June 30, 2016.

Property and Equipment, net

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

| | June 30, | December 31, |
|-------------------------------------|-----------|-----------------|
| | 2016 | 2015 |
| Property and equipment, net: | | |
| United States | \$706,604 | \$683,176 |
| International | 52,233 | 52,123 |
| Total property and equipment, net | \$758,837 | \$735,299 |

Note 14. 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 pursuant to which the Jack Dorsey Trust agreed to give back and contribute to the Company, without any cost or charge to the Company, an aggregate of 6,814,085 shares of the Company's common stock upon the Company's stockholders approval of an equity incentive plan. On May 25, 2016, the Company's stockholders approved the 2016 Equity Incentive Plan with the same number of shares to be granted over time to employees, non-employee directors and consultants. All the shares contributed from the Jack Dorsey Trust have been retired and cancelled by the Company.

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 second quarter of 2016 totaled \$602.0 million, an increase of 20% compared to \$502.4 million in the second quarter of 2015.

- Advertising revenue totaled \$534.5 million, an increase of 18% year-over-year.
- Mobile advertising revenue was 89% of total advertising revenue.
- Data licensing and other revenue totaled \$67.4 million, an increase of 35% year-over-year.
- U.S. revenue totaled \$360.7 million, an increase of 12% year-over-year.
- International revenue totaled \$241.3 million, an increase of 33% year-over-year.

Net loss was \$107.2 million and Adjusted EBITDA was \$174.6 million, an increase of 45% compared to the second quarter of 2015, representing an Adjusted EBITDA margin of 29%.

Cash, cash equivalents and short-term investments in marketable securities totaled \$3.59 billion as of June 30, 2016.

Average monthly active users (MAUs) were 313 million for the three months ended June 30, 2016, up 3% year-over-year and compared to 310 million for the three months ended March 31, 2016. Mobile MAUs represented 82% 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 half of 2016. During the second quarter of 2016, we saw continued sequential growth in monthly active usage driven by marketing initiatives, organic growth and product improvements. We also saw increased user retention and engagement (Tweets, likes, replies and Retweets) driven by these improvements, which include better relevance in both the enhanced timeline and push notification.

At the same time, the online advertising industry is evolving and marketers are increasingly focused on demonstrated value for each advertising dollar. As a result, while our advertising business remains strong in absolute terms, we are re-examining and refining our advertising offerings to better respond to these changing conditions. More specifically, we are experiencing increased competition for social marketing budgets which requires us to continuously raise the quality bar on the advertising solutions we bring to market. While we have worked to drive higher return on investment for advertisers (by leveraging our current user base and advertising formats as well as introducing innovations in targeting, creative and measurement tools) and our cost per engagement has decreased on a year-over-year basis, our advertising products are still priced at a premium cost per engagement relative to others in our industry. This has been a challenge on our ability to increase our share of overall social budgets and on our ability

to increase our growth rate in both video and performance advertising.

We will 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 June 30, 2016, we had 313 million average MAUs, which represents an increase of 3% from the three months ended June 30, 2015. The growth in average MAUs was driven primarily by marketing initiatives, organic growth and product improvements. In the three months ended June 30, 2016, we had 66 million average MAUs in the United States and 247 million average MAUs in the rest of the world, which represent an increase of 1% and 4%, respectively, from the three months ended June 30, 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.

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In the three months ended June 30, 2016, ad engagements increased 226% from the three months ended June 30, 2015. The increase was driven by the adoption of auto-play video and increases in ad load in the second quarter of 2016 compared to the second quarter of 2015. In the three months ended June 30, 2016, average cost per ad engagement decreased 64% from the three months ended June 30, 2015. The decrease in cost per ad engagement was primarily driven by a mix shift to auto-play video and to a smaller extent a decrease 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, Adjusted EBITDA margin, 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 and six months ended June 30, 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. Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by revenue.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-------------|------------------------------|-------------|
| | 2016 | 2015 | 2016 | 2015 |
| Reconciliation of Net Loss to Adjusted EBITDA | | | | |
| Net loss | \$(107,217) | \$(136,663) | \$(186,948) | \$(299,105) |
| Stock-based compensation expense | 167,695 | 175,143 | 318,611 | 357,948 |
| Depreciation and amortization expense | 93,283 | 76,049 | 181,904 | 143,913 |
| Interest and other expense, net | 18,200 | 25,132 | 36,787 | 40,326 |
| Provision (benefit) for income taxes | 2,641 | (19,473) | 4,669 | (18,841) |
| Restructuring charges | — | — | 47 | — |
| Adjusted EBITDA | \$174,602 | \$120,188 | \$355,070 | \$224,241 |

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 June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-----------------|------------------------------|-----------------|
| | 2016 | 2015 | 2016 | 2015 |
| Reconciliation of Net Loss to Non-GAAP Net Income | | | | |
| Net loss | \$(107,217) | \$(136,663) | \$(186,948) | \$(299,105) |
| Stock-based compensation expense | 167,695 | 175,143 | 318,611 | 357,948 |
| Amortization of acquired intangible assets | 12,816 | 13,965 | 25,546 | 24,760 |
| Non-cash interest expense related to convertible notes | 18,570 | 17,006 | 36,940 | 33,644 |
| Non-cash expense related to acquisitions | — | 926 | — | 926 |
| Income tax effects related to acquisitions | 1,064 | (21,859) | 1,455 | (23,147) |
| Restructuring charges | — | — | 47 | — |
| Non-GAAP net income | \$92,928 | \$48,518 | \$195,651 | \$95,026 |

We use the non-GAAP financial measures of Adjusted EBITDA, Adjusted EBITDA margin and non-GAAP net income in evaluating our operating results and for financial and operational decision-making purposes. We believe that Adjusted EBITDA, Adjusted EBITDA margin 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, Adjusted EBITDA margin 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. We also use these measures to establish budgets and operational goals for managing our business and evaluating our performance.

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 June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-------------|------------------------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| Revenue | | | | |
| Advertising services | \$534,524 | \$452,278 | \$1,065,265 | \$840,489 |
| Data licensing and other | 67,434 | 50,105 | 131,214 | 97,833 |
| Total Revenue | 601,958 | 502,383 | 1,196,479 | 938,322 |
| Costs and expenses ⁽¹⁾ | | | | |
| Cost of revenue | 202,966 | 167,623 | 401,371 | 311,098 |
| Research and development | 178,511 | 198,907 | 334,305 | 388,653 |
| Sales and marketing | 236,619 | 201,948 | 472,790 | 385,505 |
| General and administrative | 70,238 | 64,909 | 133,505 | 130,686 |
| Total costs and expenses | 688,334 | 633,387 | 1,341,971 | 1,215,942 |
| Loss from operations | (86,376) | (131,004) | (145,492) | (277,620) |
| Interest expense | (24,934) | (24,437) | (49,827) | (48,756) |
| Other income (expense), net | 6,734 | (695) | 13,040 | 8,430 |
| Loss before income taxes | (104,576) | (156,136) | (182,279) | (317,946) |
| Provision (benefit) for income taxes | 2,641 | (19,473) | 4,669 | (18,841) |
| Net loss | \$(107,217) | \$(136,663) | \$(186,948) | \$(299,105) |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-----------|------------------------------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| Cost of revenue | \$7,858 | \$10,486 | \$15,826 | \$23,372 |
| Research and development | 90,916 | 103,121 | 166,495 | 206,157 |
| Sales and marketing | 45,856 | 39,607 | 91,957 | 82,265 |
| General and administrative | 23,065 | 21,929 | 44,333 | 46,154 |
| Total stock-based compensation expense | \$167,695 | \$175,143 | \$318,611 | \$357,948 |

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 June 30, | Six Months Ended June 30, |
|--------------------------------------|---------------------------------|
|--------------------------------------|---------------------------------|

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| | 2016 | 2015 | 2016 | 2015 |
|--------------------------------------|--------|--------|--------|--------|
| Revenue | | | | |
| Advertising services | 89 % | 90 % | 89 % | 90 % |
| Data licensing and other | 11 | 10 | 11 | 10 |
| Total Revenue | 100 | 100 | 100 | 100 |
| Costs and expenses | | | | |
| Cost of revenue | 34 | 33 | 34 | 33 |
| Research and development | 30 | 40 | 28 | 41 |
| Sales and marketing | 39 | 40 | 40 | 41 |
| General and administrative | 12 | 13 | 11 | 14 |
| Total costs and expenses | 114 | 126 | 112 | 130 |
| Loss from operations | (14) | (26) | (12) | (30) |
| Interest expense | (4) | (5) | (4) | (5) |
| Other income (expense), net | 1 | (0) | 1 | 1 |
| Loss before income taxes | (17) | (31) | (15) | (34) |
| Provision (benefit) for income taxes | 0 | (4) | 0 | (2) |
| Net loss | (18)% | (27)% | (16)% | (32)% |

Revenue

We generate the substantial majority of our revenue from the sale of advertising services. We also generate revenue by licensing our data to third parties and providing mobile advertising exchange services.

Advertising Services

We generate most of our advertising revenue by selling our Promoted Products. Currently, our Promoted Products consist of the following:

- Promoted Tweets. Promoted Tweets, which are labeled as “promoted,” appear within a user’s timeline, search results or profile pages just like an ordinary Tweet regardless of device, whether it be desktop or mobile. Using our proprietary algorithms and understanding of the interests of each user, we can deliver Promoted Tweets that are intended to be relevant to a particular user. We enable our advertisers to target an audience based on our users’ Interest Graphs. Our Promoted Tweets are pay-for-performance advertising that is priced through an auction. Our Promoted Tweets include objective-based features that allow advertisers to pay only for the types of engagement selected by the advertisers, such as Tweet engagements (e.g., Retweets, replies and likes), website clicks or conversions, mobile application installs or engagements, obtaining new followers, or video views.
- Promoted Accounts. Promoted Accounts provide a way for our advertisers to grow a community of users who are interested in their business, products or services. Our Promoted Accounts are pay-for-performance advertising that is priced through an auction.
- Promoted Trends. Promoted Trends, which are labeled as “promoted,” appear at the top of the list of trending topics for an entire day in a particular country or on a global basis. We sell our Promoted Trends on a fixed-fee-per-day basis.

While the majority of the Promoted Products we sell to our advertisers are placed on Twitter, we also generate advertising revenue by placing advertising products that we sell to advertisers on third-party publishers’ websites, applications or other offerings.

Data Licensing and Other

We generate data licensing and other revenue by (i) offering “Gnip”-branded products and data licenses that allow our data partners to access, search and analyze historical and real-time data on our platform, which data consists of public Tweets and their content, and (ii) providing mobile advertising exchange services through our MoPub exchange. Our data partners generally purchase licenses to access all or a portion of our data for a fixed period. We recognize data licensing revenue as the licensed data is made available to our data partners. In addition, we operate a mobile ad exchange and receive service fees from transactions completed on the exchange. Our mobile ad exchange enables buyers and sellers to purchase and sell advertising inventory and matches buyers and sellers. We have determined we are not the principal in the purchase and sale of advertising inventory in transactions between third party buyers and sellers on the exchange. Therefore we report revenue related to our ad exchange services on a net basis.

| | Three Months Ended | | | Six Months Ended | | |
|--------------------------|--------------------|-----------|-------------|------------------|-----------|-------------|
| | June 30, 2016 | 2015 | % Change | June 30, 2016 | 2015 | % Change |
| | (in thousands) | | | (in thousands) | | |
| Advertising services | \$534,524 | \$452,278 | 18% | \$1,065,265 | \$840,489 | 27% |
| Data licensing and other | 67,434 | 50,105 | 35% | 131,214 | 97,833 | 34% |

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| | | | | | | |
|---------------|-----------|-----------|-----|-------------|-----------|-----|
| Total revenue | \$601,958 | \$502,383 | 20% | \$1,196,479 | \$938,322 | 28% |
|---------------|-----------|-----------|-----|-------------|-----------|-----|

Revenue in the three and six months ended June 30, 2016 increased by \$99.6 million and \$258.2 million, respectively, compared to the three and six months ended June 30, 2015. On a constant currency basis, revenue in the six months ended June 30, 2016 would have increased by \$268.4 million or 29% compared to the six months ended June 30, 2015. Foreign exchange effect had no material impact to the revenue in the three months ended June 30, 2016.

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In the three and six months ended June 30, 2016, advertising revenue increased by 18% and 27%, respectively, compared to the three and six months ended June 30, 2015. On a constant currency basis, advertising revenue in the six months ended June 30, 2016 would have increased 28% compared to the six months ended June 30, 2015. Foreign exchange effect had no material impact to the advertising revenue in the three months ended June 30, 2016. The substantial majority of our advertising revenue was generated from our owned and operated platform. Advertising revenue generated from the sale of our advertising services on our owned and operated platform in the three and six months ended June 30, 2016 was \$480.7 million and \$948.0 million, respectively, as compared to \$417.8 million and \$796.8 million in the three and six months ended June 30, 2015, respectively. Advertising revenue generated from the sale of our advertising services on third party publishers' websites, applications and other offerings in the three and six months ended June 30, 2016 was \$53.8 million and \$117.2 million, respectively, as compared to \$34.5 million and \$43.7 million in the three and six months ended June 30, 2015, respectively, which increase was driven primarily by the acquisition of TellApart in May 2015. The overall increases in advertising revenue were primarily attributable to 226% and 218% increases in the number of ad engagements offset by 64% and 60% decreases in average cost per ad engagement in the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015. The increase in ad engagements was driven by the adoption of auto-play video and an increase in ad load. The decrease in average cost per ad engagement was due primarily to the shift to auto-play video, which delivers more engagement at a much lower average cost per engagement than click-to-play video ads. Advertising revenue continued to be driven by growth in demand for our advertising products, particularly video and website card formats as well as growth in our advertising base.

In the three and six months ended June 30, 2016, data licensing and other revenue increased by 35% and 34%, respectively, compared to the three and six months ended June 30, 2015. The increase was primarily attributable to growth in mobile advertising exchange services as well as the increase in data licensing fees from the offering of "Gnip"-branded products.

Cost of Revenue

Cost of revenue includes infrastructure costs, other direct costs, amortization of acquired intangible assets and capitalized labor costs, allocated facilities costs, as well as traffic acquisition costs, or TAC. Infrastructure costs consist primarily of data center costs related to our co-located facilities, which include lease and hosting costs, related support and maintenance costs and energy and bandwidth costs; as well as depreciation of our servers and networking equipment; and personnel-related costs, including salaries, benefits and stock-based compensation, for our operations teams. TAC consists of costs we incur with third parties in connection with the sale to advertisers of our advertising products that we place on third-party publishers' websites, applications or other offerings collectively resulting from acquisitions, and from our organically-built advertising network, Twitter Audience Platform. Many of the elements of our cost of revenue are relatively fixed, and cannot be reduced in the near term to offset any decline in our revenue.

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|--|--------------------------------|-----------|-------------|------------------------------|-----------|-------------|
| | 2016 | 2015 | % Change | 2016 | 2015 | % Change |
| | (in thousands) | | | (in thousands) | | |
| Cost of revenue | \$202,966 | \$167,623 | 21% | \$401,371 | \$311,098 | 29% |
| Cost of revenue as a percentage of revenue | 34 | % 33 | % | 34 | % 33 | % |

In the three months ended June 30, 2016, cost of revenue, which included TAC of \$28.2 million, increased by \$35.3 million compared to the three months ended June 30, 2015. The increase was primarily attributable to a \$19.9 million increase in networking, hosting and data center costs related to our co-located facilities, an \$11.0 million increase in depreciation expense related to additional server and networking equipment and amortization of acquired intangible assets, a \$5.7 million increase in TAC, and a \$4.8 million increase in other direct costs, offset by a \$6.1 million decrease in personnel-related costs, mainly driven by a decrease in average employee headcount and stock-based compensation expense.

In the six months ended June 30, 2016, cost of revenue, which included TAC of \$64.3 million, increased by \$90.3 million compared to the six months ended June 30, 2015. The increase was primarily attributable to a \$39.4 million increase in networking, hosting and data center costs related to our co-located facilities, a \$35.9 million increase in TAC, a \$23.1 million increase in depreciation expense related to additional server and networking equipment and amortization of acquired intangible assets, and a \$7.3 million increase in other direct costs, offset by a \$15.4 million decrease in personnel-related costs, mainly driven by a decrease in average employee headcount and stock-based compensation expense.

We plan to continue increasing the capacity and enhancing the capability and reliability of our infrastructure to support user growth and increased activity on our platform. We expect that the amount of revenue generated from the sale of our advertising services on third party publishers' websites, applications and other offerings will vary, which will also result in variation in the amount of TAC that we incur. As a result, we expect that cost of revenue, in particular TAC, will vary in absolute dollar amounts for the foreseeable future and vary in the near term from period to period as a percentage of revenue.

Research and Development

Research and development expenses consist primarily of personnel-related costs, including salaries, benefits and stock-based compensation, for our engineers and other employees engaged in the research and development of our products and services. In addition, research and development expenses include amortization of acquired intangible assets, allocated facilities and other supporting overhead costs.

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|--|--------------------------------|-----------|-------------|------------------------------|-----------|-------------|
| | 2016 | 2015 | % Change | 2016 | 2015 | % Change |
| | (in thousands) | | | (in thousands) | | |
| Research and development | \$178,511 | \$198,907 | (10)% | \$334,305 | \$388,653 | (14)% |
| Research and development as a percentage of revenue | 30% | 40% | | 28% | 41% | |

In the three months ended June 30, 2016, research and development expenses decreased by \$20.4 million compared to the three months ended June 30, 2015. The decrease was primarily attributable to a \$14.0 million decrease in personnel-related costs, mainly driven by a decrease in compensation and recognition of stock-based compensation expense from a decrease in average employee headcount, a \$7.0 million increase in the capitalization of costs associated with developing software for internal use due primarily to an increase in the number of projects as we refine our core services and a \$1.8 million decrease in other expenses. The decreases were partially offset by a \$1.5 million increase in depreciation expense and a \$0.9 million increase in allocated facilities and other supporting overhead expenses.

In the six months ended June 30, 2016, research and development expenses decreased by \$54.3 million compared to the six months ended June 30, 2015. The decrease was primarily attributable to a \$41.4 million decrease in personnel-related costs, mainly driven by a decrease in compensation and recognition of stock-based compensation expense from a decrease in average employee headcount, a \$19.3 million increase in the capitalization of costs associated with developing software for internal use due primarily to an increase in the number of projects as we refine our core services and a \$1.9 million decrease in other expenses. The decreases were partially offset by a \$5.1 million increase in allocated facilities and other supporting overhead expenses, and a \$3.2 million increase in depreciation expense.

We plan to continue to hire employees for our engineering, product management and design teams to support our research and development efforts. We expect that research and development costs will vary in the near term from period to period as a percentage of revenue.

Sales and Marketing

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Sales and marketing expenses consist primarily of personnel-related costs, including salaries, commissions, benefits and stock-based compensation for our employees engaged in sales, sales support, business development and media, marketing, corporate communications and customer service functions. In addition, marketing and sales-related expenses also include advertising costs, market research, tradeshow, branding, marketing, public relations costs, amortization of acquired intangible assets, as well as allocated facilities and other supporting overhead costs.

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|--|--------------------------------|-----------|-------------|------------------------------|-----------|-------------|
| | 2016 | 2015 | % Change | 2016 | 2015 | % Change |
| | (in thousands) | | | (in thousands) | | |
| Sales and marketing | \$236,619 | \$201,948 | 17% | \$472,790 | \$385,505 | 23% |
| Sales and marketing as a percentage of revenue | 39 | % 40 | % | 40 | % 41 | % |

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In the three months ended June 30, 2016, sales and marketing expenses increased by \$34.7 million compared to the three months ended June 30, 2015. The increase was primarily attributable to a \$15.3 million increase in personnel-related costs, mainly driven by an increase in average employee headcount from expansion of sales, media, marketing and business development, a \$9.6 million increase in marketing and sales-related expenses, mainly driven by an increase in consumer marketing and market research, an \$8.9 million increase in allocated facilities and other supporting overhead expenses due to the expansion of our real estate footprint and increase in support functions, and a \$0.9 million increase in amortization of acquired intangible assets.

In the six months ended June 30, 2016, sales and marketing expenses increased by \$87.3 million compared to the six months ended June 30, 2015. The increase was primarily attributable to a \$34.9 million increase in personnel-related costs, mainly driven by an increase in average employee headcount from expansion of sales, media, marketing and business development, a \$25.5 million increase in marketing and sales-related expenses, mainly driven by an increase in consumer marketing and market research, a \$23.8 million increase in allocated facilities and other supporting overhead expenses due to the expansion of our real estate footprint and increase in support functions, and a \$3.1 million increase in amortization of acquired intangible assets.

We plan to continue to invest in key areas of our business and ensure that we have the right level of sales and marketing to execute on our key priorities and objectives. We expect that sales and marketing expenses will vary in the near term from period to period as a percentage of revenue.

General and Administrative

General and administrative expenses consist primarily of personnel-related costs, including salaries, benefits and stock-based compensation, for our executive, finance, legal, information technology, human resources and other administrative employees. In addition, general and administrative expenses include fees and costs for professional services, including consulting, third-party legal and accounting services and facilities and other supporting overhead costs that are not allocated to other departments.

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|-----------------------------|----------|----------|---------------------------|-----------|----------|
| | 2016 | 2015 | % Change | 2016 | 2015 | % Change |
| | (in thousands) | | | (in thousands) | | |
| General and administrative | \$70,238 | \$64,909 | 8% | \$133,505 | \$130,686 | 2% |
| General and administrative as a percentage of revenue | 12% | 13% | | 11% | 14% | |

In the three months ended June 30, 2016, general and administrative expense increased by \$5.3 million compared to the three months ended June 30, 2015. The increase was primarily attributable to a \$5.2 million increase in unallocated facilities and supporting costs and an increase of \$2.7 million in personnel-related costs, mainly driven by an increase in compensation and recognition of stock-based compensation expense, offset by a decrease of \$2.2 million in fees and costs for professional services and a \$0.4 million increase in the capitalization of costs associated with developing software for internal use.

In the six months ended June 30, 2016, general and administrative expense increased by \$2.8 million compared to the six months ended June 30, 2015. The slight increase was primarily attributable to a \$4.6 million increase in

personnel-related costs, mainly driven by an increase in compensation and recognition of stock-based compensation expense and a \$4.7 million increase in unallocated facilities and supporting costs, offset by a decrease of \$4.2 million in fees and costs for professional services and a \$2.3 million increase in the capitalization of costs associated with developing software for internal use.

We plan to continue to invest in key areas of our business and ensure that we have the right level of general and administrative support on our key priorities and objectives. We expect that general and administrative expenses will vary in the near term from period to period as a percentage of revenue.

Interest Expense

Interest expense consists primarily of interest expense incurred in connection with the \$935.0 million principal amount of 0.25% convertible senior notes due 2019, or the 2019 Notes, and \$954.0 million principal amount of 1.00% convertible senior notes due 2021, or the 2021 Notes and together with the 2019 Notes, the Notes, and interest expense related to capital leases and other financing facilities.

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|------------------|-----------------------------|----------|----------|---------------------------|----------|----------|
| | 2016 | 2015 | % Change | 2016 | 2015 | % Change |
| | (in thousands) | | | (in thousands) | | |
| Interest expense | \$24,934 | \$24,437 | 2% | \$49,827 | \$48,756 | 2% |

In the three and six months ended June 30, 2016, interest expense increased by \$0.5 million and \$1.1 million compared to the three and six months ended June 30, 2015. The slight increase was primarily attributable to amortization of the debt discount of the Notes. Interest expense in the three and six months ended June 30, 2016 was comprised of \$23.5 million and \$46.9 million, respectively, of total interest expense related to the Notes as well as the credit facility and \$1.4 million and \$2.9 million, respectively, related to capital leases of equipment.

Other Income (Expense), Net

Other income (expense), net, consists primarily of unrealized foreign exchange gains and losses due to re-measurement of monetary assets and liabilities denominated in non-functional currencies as well as realized foreign exchange gains and losses on foreign exchange transactions, and interest income resulting from our short term investments net of the related amortization of premium paid on such investments. We expect our foreign exchange gains and losses will vary depending upon movements in the underlying exchange rates.

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|-----------------------------|-----------------------------|---------|----------|---------------------------|---------|----------|
| | 2016 | 2015 | % Change | 2016 | 2015 | % Change |
| | (in thousands) | | | (in thousands) | | |
| Other income (expense), net | \$6,734 | \$(695) | (1069)% | \$13,040 | \$8,430 | 55% |

Other income (expense), net, increased by \$7.4 million and \$4.6 million in the three and six months ended June 30, 2016, respectively, compared to the three and six months ended June 30, 2015. The increases were attributable to an increase in interest income on our short term investments and more favorable foreign currency exchange impacts from foreign currency-denominated assets and liabilities net of impact of change in valuation of derivative financial instruments. Other income (expense), net in the three months ended June 30, 2016 was comprised of \$5.5 million of interest and other income, and \$3.5 million of foreign currency exchange gain, offset by \$2.3 million of other expense. Other income (expense), net in the six months ended June 30, 2016 was comprised of \$11.3 million of interest and other income, and \$4.2 million of foreign currency exchange gain, offset by \$2.5 million of other expense.

Provision (Benefit) for Income Taxes

Provision (benefit) for income taxes consists of federal and state income taxes in the United States and income taxes in certain foreign jurisdictions which are expected to fluctuate based on the pre-tax results within and outside of the United States and will also be impacted by our allocation of centrally incurred costs to foreign jurisdictions. Our future effective tax rate will also be affected by the changes in tax rates and tax regulations, the impact of tax examinations, the impact of business combinations, and changes in valuation allowance. In addition, the provision is impacted by deferred income taxes and changes in the related valuation allowance reflecting the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

| | Three Months | | Six Months | |
|--------------------------------------|----------------|------------|----------------|------------|
| | Ended June 30, | | Ended June 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| | (in thousands) | | (in thousands) | |
| Provision (benefit) for income taxes | \$2,641 | \$(19,473) | \$4,669 | \$(18,841) |

Our provision for income taxes in the three and six months ended June 30, 2016 changed by \$22.1 million and \$23.5 million, respectively, compared to benefits of \$19.5 million and \$18.8 million in the three and six months ended June 30, 2015. The change was primarily because we recorded deferred tax benefits of \$22.4 million and \$24.2 million in the three and six months ended June 30, 2015, respectively, which related to the release of valuation allowance resulting from acquisitions completed within the prior year periods. The deferred tax liabilities recorded in the prior year periods, as part of purchase accounting, provided an additional source of taxable income to support the realizability of pre-existing deferred tax assets. In the three months ended June 30, 2016, the acquisitions we completed did not result in the release of valuation allowance.

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. A final decision was entered by the U.S. Tax Court on December 28, 2015 and the Internal Revenue Service notified the U.S. Court of Appeals for the Ninth Circuit on February 19, 2016 of its intent to appeal the Tax Court's decision in the case. We filed our 2014 federal tax return based upon the opinion rendered in this case, which we believe will more likely than not be sustained, and which resulted in an increase in the 2014 net operating loss in the U.S. federal jurisdiction with a commensurate decrease in the overall pre-tax loss in foreign jurisdictions. As we maintain a full valuation allowance on our U.S. deferred tax assets, no benefit was realized in the financial statements as a result of this filing position. On an ongoing basis, stock-based compensation will be excluded from intercompany charges.

Liquidity and Capital Resources

| | Six Months Ended June 30, | |
|--|------------------------------|-------------|
| | 2016 | 2015 |
| | (in thousands) | |
| Consolidated Statements of Cash Flows Data: | | |
| Net loss | \$(186,948) | \$(299,105) |
| Net cash provided by operating activities | 377,320 | 182,160 |
| Net cash used in investing activities | (313,331) | (755,536) |
| Net cash used in financing activities | (33,683) | (40,852) |

Our principal sources of liquidity are our cash, cash equivalents, and short-term investments in marketable securities. Our cash equivalents and marketable securities are invested primarily in short-term fixed income securities, including government and investment-grade debt securities and money market funds.

As of June 30, 2016, we had \$3.59 billion of cash, cash equivalents and short-term investments in marketable securities, of which \$165.5 million was held by our foreign subsidiaries. If these funds are needed for our operations in the U.S., we would be required to accrue and pay U.S. taxes to repatriate certain of these funds. However, our intent is to indefinitely reinvest these funds outside of the U.S. and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations. In addition, we have a revolving unsecured credit facility (described below) available to borrow up to \$1.0 billion. We believe that our existing cash, cash equivalents and short-term investment balance, and our credit facility, together with cash generated from operations will be sufficient to meet our working capital and capital expenditure requirements for at least the next 12 months.

Credit Facility

In October 2013, we entered into a revolving credit agreement with certain lenders which provides for a \$1.0 billion revolving unsecured credit facility maturing on October 22, 2018. We are 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. Our obligations under the credit facility are guaranteed by one of our wholly-owned subsidiaries. In addition, the credit facility contains restrictions on payments including cash payment of dividends. As of June 30, 2016, no amounts had been drawn under the credit facility.

Operating Activities

Cash provided by operating activities consists of net loss adjusted for certain non-cash items including depreciation and amortization, stock-based compensation, amortization of discount on our Notes, deferred income taxes, as well as the effect of changes in working capital and other activities. We expect that cash provided by operating activities will fluctuate in future periods as a result of a number of factors, including fluctuations in our revenue, increases in operating expenses and costs related to acquisitions. For additional discussion, see “Part II—Other Information, Item 1A. Risk Factors.”

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Cash provided by operating activities in the six months ended June 30, 2016 was \$377.3 million, an increase in cash inflow of \$195.2 million compared to the six months ended June 30, 2015. Cash provided by operating activities was driven by a net loss of \$186.9 million, as adjusted for the exclusion of non-cash expenses totaling \$545.3 million, of which \$318.6 million was related to stock-based compensation expense, and the effect of changes in working capital and other carrying balances that resulted in cash inflows of \$18.9 million.

Cash provided by operating activities in the six months ended June 30, 2015 was \$182.2 million. Cash provided by operating activities was driven by a net loss of \$299.1 million, as adjusted for the exclusion of non-cash expenses totaling \$509.3 million, of which \$357.9 million was related to stock-based compensation expense, and the effect of changes in working capital and other carrying balances that resulted in cash outflows of \$28.0 million.

Investing Activities

Our primary investing activities consist of purchases of property and equipment, particularly purchases of servers and networking equipment, leasehold improvements for our facilities, purchases and disposal of marketable securities, strategic investments in privately-held companies, acquisitions of businesses and other activities.

Cash used in investing activities in the six months ended June 30, 2016 was \$313.3 million, a decrease in cash outflow of \$442.2 million compared to the six months ended June 30, 2015. The decrease in cash outflow was primarily due to a decrease in the purchases of marketable securities of \$904.5 million, a \$62.1 million decrease in purchases of property and equipment and a \$4.6 million decrease in expenditures on other investing activities offset by a decrease of proceeds from sales and maturities of marketable securities of \$402.7 million, a \$72.5 million increase in purchases of investments in privately-held companies and a net increase of \$53.8 million in cash used in business combinations.

We anticipate making capital expenditures in 2016 of approximately \$300 million to \$375 million, a portion of which we may finance through capital leases, as we continue to expand our co-located data centers and our office facilities.

Financing Activities

Our primary financing activities consist of issuances of securities, capital lease financing and stock option exercises by employees and other service providers.

Cash used in financing activities in the six months ended June 30, 2016 was \$33.7 million, a decrease in cash outflow of \$7.2 million compared to the six months ended June 30, 2015. The decrease in cash outflow was due to a reduction in repayments of capital lease obligations of \$14.2 million offset by a \$5.8 million decrease in proceeds from the issuance of shares of stock from ESPP, a net \$0.7 million decrease in proceeds from option exercises and \$0.5 million increase in tax payments related to net share settlements of equity awards and other activities.

Off Balance Sheet Arrangements

We do not have any off-balance sheet arrangements and did not have any such arrangements as of June 30, 2016.

Contractual Obligations

There were no material changes in our commitments under contractual obligations except for scheduled payments from the ongoing business, as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with GAAP. In doing so, we have to make estimates and assumptions that affect our reported amounts of assets, liabilities, revenue and expenses, as well as related disclosure of contingent assets and liabilities. To the extent that there are material differences between these estimates and actual results, our financial condition or operating results would be affected. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. We refer to accounting estimates of this type as critical accounting policies and estimates. Please refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 for a more complete discussion of our critical accounting policies and estimates.

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

Recent Accounting Pronouncements

For information with respect to recent accounting pronouncements and the impact of these pronouncements on our consolidated financial statements, see Note 1 – “Description of Business and Summary of Significant Accounting Policies” in the notes to the consolidated financial statements included in Part I of this Quarterly Report on Form 10-Q.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have operations both within the United States and internationally, and we are exposed to market risks in the ordinary course of our business. These risks include primarily interest rate and foreign exchange risks.

Interest Rate Fluctuation Risk

Our investment portfolio mainly consists of short-term fixed income securities, including government and investment-grade debt securities and money market funds. These securities are classified as available-for-sale and, consequently, are recorded on the consolidated balance sheets at fair value with unrealized gains or losses, net of tax reported as a separate component of accumulated other comprehensive loss. Our investment policy and strategy is focused on the preservation of capital and supporting our liquidity requirements. We do not enter into investments for trading or speculative purposes.

A rise in interest rates could have a material adverse impact on the fair value of our investment portfolio. Based on our investment portfolio balance as of June 30, 2016, a hypothetical increase in interest rates of 100 basis points would result in a decrease of approximately \$13.5 million in the fair value of our available-for-sale securities. We currently do not hedge these interest rate exposures.

In 2014, we issued Notes with aggregate principal amount of \$1.89 billion. We carry the Notes at face value less amortized discount on the consolidated balance sheet. Since the Notes bear interest at fixed rates, we have no financial statement risk associated with changes in interest rates. However, the fair value of the Notes changes when the market price of our stock fluctuates or interest rates change.

Foreign Currency Exchange Risk

Transaction Exposure

We transact business in various foreign currencies and have international revenue, as well as costs denominated in foreign currencies, primarily the Euro, British Pound and Japanese Yen. This exposes us to the risk of fluctuations in foreign currency exchange rates. Accordingly, changes in exchange rates, and in particular a strengthening of the U.S. dollar, would negatively affect our revenue and other operating results as expressed in U.S. dollars.

We have experienced and will continue to experience fluctuations in our net loss as a result of transaction gains or losses related to revaluing and ultimately settling certain asset and liability balances that are denominated in currencies other than the functional currency of the entities in which they are recorded. Net realized and unrealized foreign currency gain was \$10.0 million and \$9.0 million for the three and six months ended June 30, 2016,

respectively. Net realized and unrealized loss was \$3.0 million for the three months ended June 30, 2015 and net realized and unrealized gain was \$5.2 million for the six months ended June 30, 2015. Based on our foreign currency exposures from monetary assets and liabilities, we estimated that a 5% change in exchange rates against the U.S. dollar would result in a gain or loss of approximately \$12.7 million as of June 30, 2016. We currently utilize foreign currency forward contracts with financial institutions to reduce the risk that our earnings may be adversely affected by the impact of exchange rate fluctuations on monetary assets or liabilities denominated in currencies other than the local currency of a subsidiary. These contracts are not designated as hedging instruments. We may in the future enter into other derivative financial instruments if it is determined that such hedging activities are appropriate to further reduce our foreign currency exchange risk.

Translation Exposure

We are also exposed to foreign exchange rate fluctuations as we translate the financial statements of our foreign subsidiaries into U.S. dollars in consolidation. If there is a change in foreign currency exchange rates, the translating adjustments resulting from the conversion of our foreign subsidiaries' financial statements into U.S. dollars would result in a gain or loss recorded as a component of accumulated other comprehensive loss which is part of stockholders' equity.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The design of disclosure controls and procedures and internal control over financial reporting must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2016, our disclosure controls and procedures were designed at a reasonable assurance level and were effective to provide reasonable assurance.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

We are currently involved in, and may in the future be involved in, legal proceedings, claims, investigations, and government inquiries arising in the ordinary course of business. These proceedings, in the form of both individual and class action litigation, have included, but are not limited to matters involving intellectual property, defamation, privacy, and contractual rights. Legal risk is enhanced in certain jurisdictions outside the United States where our protection from liability for content published on our platform by third parties may be unclear and where we may be less protected under local laws than we are in the United States. Future litigation may be necessary, among other things, to defend ourselves, and our users, by determining the scope, enforceability, and validity of third-party rights or to establish our rights.

Although the results of the legal proceedings, claims, investigations, and government inquiries in which we are involved cannot be predicted with certainty, we do not believe that there is a reasonable possibility that the final outcome of these matters will have a material adverse effect on our business, financial condition, operating results, or prospects. However, the final results of any current or future proceeding cannot be predicted with certainty, and until there is final resolution on any such matter that we may be required to accrue for, we may be exposed to loss in excess of the amount accrued. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors.

Item 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information in this Quarterly Report on Form 10-Q, including the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes, before making a decision to invest in our common stock. The risks and uncertainties described below may not be the only ones we face. If any of the risks actually occurs, our business, financial condition, operating results, cash flows and prospects could be materially and adversely affected. In that event, the market price of our common stock could decline, and you could lose part or all of your investment.

Risks Related to Our Business and Our Industry

If we fail to grow our user base, or if user engagement or ad engagement on our platform decline, our revenue, business and operating results may be harmed.

The size of our user base and our users’ level of engagement are critical to our success. We had 313 million average MAUs in the three months ended June 30, 2016, representing a 3% increase from 304 million average MAUs in the three months ended June 30, 2015. Our financial performance has been and will continue to be significantly determined by our success in growing the number of users and increasing their overall level of engagement on our platform as well as the number of ad engagements. We anticipate that our user growth rate will continue to slow over time as the size of our user base increases. For example, in general, a higher proportion of Internet users in the United States uses Twitter than Internet users in other countries and, in the future, we expect our user growth rate in certain international markets, such as Argentina, France, India, Japan, Mexico and the Philippines, to continue to be higher than our user growth rate in the United States. To the extent our logged-in user growth rate slows, our success will become increasingly dependent on our ability to increase levels of ad engagement on Twitter and monetizing our total audience on logged-out usage and syndicated properties as well as increasing revenue growth from the sale to

advertisers of our advertising products which we place on Twitter properties and third party publishers' websites, applications and other offerings. We generate a substantial majority of our revenue based upon engagement by our users with the ads that we display. If people do not perceive our products and services to be useful, reliable and trustworthy, we may not be able to attract users or increase the frequency of their engagement with our platform and the ads that we display. A number of consumer-oriented websites that achieved early popularity have since seen their user bases or levels of engagement decline, in some cases precipitously. There is no guarantee that we will not experience a similar erosion of our user base or engagement levels. A number of factors could potentially negatively affect user growth and engagement, including if:

- users, including influential users, such as world leaders, government officials, celebrities, athletes, journalists, sports teams, media outlets and brands or certain age demographics, engage with other products, services or activities as an alternative to ours;
- we are unable to convince potential or new users of the value and usefulness of our products and services;
- there is a decrease in the perceived quantity, quality, usefulness or relevance of the content generated by our users;

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- we fail to introduce new and improved products or services or if we introduce new or improved products or services that are not favorably received or that negatively affect user engagement;
- technical or other problems prevent us from delivering our products or services in a rapid and reliable manner or otherwise affect the user experience, including issues with connecting to the Internet;
- users have difficulty installing, updating, or otherwise accessing our products or services on mobile devices as a result of actions by us or third parties that we rely on to distribute our products and deliver our services;
- we are unable to manage and prioritize information to ensure users are presented with content that is interesting, useful and relevant to them;
- users believe that their experience is diminished as a result of the decisions we make with respect to the frequency, relevance and prominence of ads that we display;
- there are user concerns related to privacy and communication, safety, security, spam or other hostile or inappropriate usage or other factors;
- there are adverse changes in our products or services that are mandated by, or that we elect to make to address, legislation, regulatory authorities or litigation, including settlements or consent decrees;
- we fail to provide adequate customer service to users; or
- we do not maintain our brand image or our reputation is damaged.

We believe that returning to meaningful MAU growth is dependent on improving our product and feature offerings to demonstrate our value proposition to a larger audience. If we are unable to increase our user base, user growth rate or user engagement, or if these metrics decline, our products and services could be less attractive to potential new users, as well as to advertisers and platform partners, which would have a material and adverse impact on our business, financial condition and operating results.

If our users do not continue to contribute content or their contributions are not valuable to other users, we may experience a decline in the number of users accessing our products and services and user engagement, which could result in the loss of advertisers, platform partners and revenue.

Our success depends on our ability to provide users of our products and services with valuable content, which in turn depends on the content contributed by our users. We believe that one of our competitive advantages is the quality, quantity and real-time nature of the content on Twitter, and that access to unique or real-time content is one of the main reasons users visit Twitter. Our ability to expand into new international markets depends on the availability of relevant local content in those markets. We seek to foster a broad and engaged user community, and we encourage world leaders, government officials, celebrities, athletes, journalists, sports teams, media outlets and brands to use our products and services to express their views to broad audiences. We also encourage media outlets to use our products and services to distribute their content. If users, including influential users, do not continue to contribute content to Twitter, and we are unable to provide users with valuable and timely content, our user base and user engagement may decline. Additionally, if we are not able to address user concerns regarding the safety and security of our products and services or if we are unable to successfully prevent abusive or other hostile behavior on our platform, the size of our user base and user engagement may decline. We rely on the sale of advertising services for the substantial majority of our revenue. If we experience a decline in the number of users, user growth rate, or user engagement, including as a result of the loss of world leaders, government officials, celebrities, athletes, journalists, sports teams, media outlets and brands who generate content on Twitter, advertisers may not view our products and services as attractive for their marketing expenditures, and may reduce their spending with us which would harm our business and operating results.

We generate the substantial majority of our revenue from advertising. The loss of advertising revenue could harm our business.

The substantial majority of our revenue is currently generated from third parties advertising on Twitter. We generated approximately 90% and 89% of our revenue from advertising in the fiscal year ended December 31, 2015 and the six months ended June 30, 2016, respectively. We generate substantially all of our advertising revenue through the sale of our three Promoted Products: Promoted Tweets, Promoted Accounts and Promoted Trends. As is common in our industry, our advertisers do not have long-term advertising commitments with us. In addition, many of our advertisers purchase our advertising services through one of several large advertising agency holding companies. Advertising agencies and potential new advertisers may view our Promoted Products as experimental and unproven, and we may need to devote additional time and resources to educate them about our products and services. Advertisers also may choose to reach users through our free products and services, instead of our Promoted Products. Advertisers will not continue to do business with us, or they will reduce the prices they are willing to pay to advertise with us, if we do not deliver ads in an effective manner, or if they do not believe that their investment in advertising with us will generate a competitive return relative to alternatives, including online, mobile and traditional advertising platforms. Additionally, since our initial public offering, our revenue growth has been primarily driven by increases in the number of our users and increases in our ad load driven by strong advertiser demand as well as other factors. To date, our available advertising inventory has been greater than demand. Our future revenue growth, however, may be limited on certain days by available advertising inventory for specific ad types if we do not increase the number of our users, their engagement or monetize our larger global audience. Our advertising revenue could be adversely affected by a number of other factors, including:

- decreases in user engagement with the ads on our platform and those that we serve off of our platform;
- decreases in the size of our user base or user growth rate;
- if we are unable to demonstrate the value of our Promoted Products to advertisers and advertising agencies or if we are unable to measure the value of our Promoted Products in a manner which advertisers and advertising agencies find useful;
- if we are unable to demonstrate the value of or attract video and video advertisements on our platform;
- if our Promoted Products are not cost effective or valuable for certain types of advertisers or if we are unable to develop cost effective or valuable advertising services for different types of advertisers;
- if we are unable to convince advertisers and brands to invest resources in learning to use our products and services and maintaining a brand presence on Twitter;
- our advertisers' ability to optimize their campaigns or measure the results of their campaigns;
- product or service changes we may make that change the frequency or relative prominence of ads displayed on Twitter or that detrimentally impact revenue in the near term with the goal of achieving long term benefits;
- our inability to increase advertiser demand and advertising inventory;
- our inability to increase the relevance of ads shown to users;
- our inability to help advertisers effectively target ads, including as a result of the fact that we do not collect extensive personal information from our users and that we do not have real-time geographic information for all of our users particularly for ads served through our app mobile-focused advertising exchange;
- decreases in the cost per ad engagement;
- failure to effectively monetize our growing international user base, our logged-out audience or our syndicated audience;
- loss of advertising market share to our competitors;
- the degree to which users access Twitter content through applications that do not contain our ads;
- any arrangements or other partnerships with third parties to share our revenue;
- our new advertising strategies do not gain traction;
- the impact of new technologies that could block or obscure the display of our ads;
- adverse legal developments relating to advertising or measurement tools related to the effectiveness of advertising, including legislative and regulatory developments, and developments in litigation;

- our inability to create new products, product features and services that sustain or increase the value of our advertising services to both our advertisers and our users;
- changes to our products or development of new products or product features that decrease users' ad engagements or limit the types of user interactions that we count as ad engagements;
- the impact of fraudulent clicks or spam on our Promoted Products and our users;
- changes in the way our advertising is priced; and
- the impact of macroeconomic conditions and conditions in the advertising industry in general.

The occurrence of any of these or other factors could result in a reduction in demand for our ads, which may reduce the prices we receive for our ads, either of which would negatively affect our revenue and operating results.

If we are unable to compete effectively for users and advertiser spend, our business and operating results could be harmed.

Competition for users of our products and services is intense. Although we have developed a global platform for public self-expression and conversation in real time, we face strong competition in our business. We compete against many companies to attract and engage users, including companies which have greater financial resources and substantially larger user bases, such as Facebook (including Instagram and WhatsApp), Google, LinkedIn, Microsoft and Yahoo, which offer a variety of Internet and mobile device-based products, services and content. For example, Facebook operates a social networking site with significantly more users than Twitter and has been introducing features similar to those of Twitter. In addition, Google may use its strong position in one or more markets to gain a competitive advantage over us in areas in which we operate, including by integrating competing features into products or services they control. As a result, our competitors may draw users towards their products or services and away from ours. This could decrease the growth or engagement of our user base, which, in turn, would negatively affect our business. We also compete against largely regional social media and messaging companies that have strong positions in particular countries.

We believe that our ability to compete effectively for users depends upon many factors both within and beyond our control, including:

- the popularity, usefulness, ease of use, performance and reliability of our products and services compared to those of our competitors;
- the amount, quality and timeliness of content generated by our users;
- the timing and market acceptance of our products and services;
- the continued adoption of our products and services internationally;
- our ability, in and of itself and in comparison to the ability of our competitors, to develop new products and services and enhancements to existing products and services;
- the frequency and relative prominence of the ads displayed by us or our competitors;
- our ability to establish and maintain relationships with platform partners that integrate with our platform;
- our ability to develop a reliable, scalable, secure, high-performance technology infrastructure that can efficiently handle increased usage globally;
- changes mandated by, or that we elect to make to address, legislation, regulatory authorities or litigation, including settlements and consent decrees, some of which may have a disproportionate effect on us;
- the application of antitrust laws both in the United States and internationally;
- government action regulating competition;
- our ability to attract, retain and motivate talented employees, particularly engineers, designers and product managers;
- acquisitions or consolidation within our industry, which may result in more formidable competitors; and
- our reputation and the brand strength relative to our competitors.

We also face significant competition for advertiser spend. The substantial majority of our revenue is currently generated through third parties advertising on Twitter, and we compete against online and mobile businesses, including those referenced above, and traditional media outlets, such as television, radio and print, for advertising budgets. We also compete with advertising networks, exchanges, demand side platforms and other platforms, such as Google AdSense, DoubleClick Ad Exchange, Yahoo Ad Exchange, AOL's Ad.com and Microsoft Media Network, for marketing budgets and in the development of the tools and systems for managing and optimizing advertising campaigns. In order to grow our revenue and improve our operating results, we must increase our share of spending on advertising relative to our competitors, many of which are larger companies that offer more traditional and widely accepted advertising products. In addition, some of our larger competitors have substantially broader product or service offerings and leverage their relationships based on other products or services to gain additional share of advertising budgets.

We believe that our ability to compete effectively for advertiser spend depends upon many factors both within and beyond our control, including:

- the size and composition of our user base relative to those of our competitors;
- our ad targeting and measurement capabilities, and those of our competitors;
- the timing and market acceptance of our advertising services, and those of our competitors;
- our marketing and selling efforts, and those of our competitors;
- the pricing of our Promoted Products relative to the advertising products and services of our competitors;
- the return our advertisers receive from our advertising services, and those of our competitors; and
- our reputation and the strength of our brand relative to our competitors.

In recent years, there have been significant acquisitions and consolidation by and among our actual and potential competitors. We anticipate this trend of consolidation will continue, which will present heightened competitive challenges for our business. Acquisitions by our competitors may result in reduced functionality of our products and services. For example, following Facebook's acquisition of Instagram, Facebook disabled Instagram's photo integration with Twitter such that Instagram photos were no longer viewable within Tweets and users are instead re-directed to Instagram to view Instagram photos through a link within a Tweet. As a result, our users may be less likely to click on links to Instagram photos in Tweets, and Instagram users may be less likely to tweet or remain active users of Twitter. Any similar elimination of integration with Twitter in the future, whether by Facebook or others, may adversely impact our business and operating results.

Consolidation may also enable our larger competitors to offer bundled or integrated products that feature alternatives to our platform. Reduced functionality of our products and services, or our competitors' ability to offer bundled or integrated products that compete directly with us, may cause our user growth, user engagement and ad engagement to decline and advertisers to reduce their spend with us.

If we are not able to compete effectively for users and advertiser spend our business and operating results would be materially and adversely affected.

Our operating results may fluctuate from quarter to quarter, which makes them difficult to predict.

Our quarterly operating results have fluctuated in the past and will fluctuate in the future. As a result, our past quarterly operating results are not necessarily indicators of future performance. Our operating results in any given quarter can be influenced by numerous factors, many of which we are unable to predict or are outside of our control, including:

- our ability to grow our user base and user engagement;
- our ability to attract and retain advertisers and platform partners;
- the occurrence of planned significant events, such as the World Cup, Super Bowl, Champions League Final, World Series, Olympics and the Oscars, or unplanned significant events, such as natural disasters and political revolutions;

- the pricing of our products and services;
- the development and introduction of new products or services or changes in features of existing products or services;
- the impact of competitors or competitive products and services;

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- our ability to maintain or increase revenue;
- our ability to maintain or improve gross margins and operating margins;
- increases in research and development, marketing and sales and other operating expenses that we may incur to grow and expand our operations and to remain competitive;
- stock-based compensation expense;
- costs related to the acquisition of businesses, talent, technologies or intellectual property, including potentially significant amortization costs;
- system failures resulting in the inaccessibility of our products and services;
- breaches of security or privacy, and the costs associated with remediating any such breaches;
- adverse litigation judgments, settlements or other litigation-related costs, and the fees associated with investigating and defending claims;
- changes in the legislative or regulatory environment, including with respect to security, privacy or enforcement by government regulators, including fines, orders or consent decrees;
- fluctuations in currency exchange rates and changes in the proportion of our revenue and expenses denominated in foreign currencies;
- changes in U.S. generally accepted accounting principles; and
- changes in global business or macroeconomic conditions.

Given our limited operating history and the rapidly evolving markets in which we compete, our historical operating results may not be useful to you in predicting our future operating results. As our revenue growth rate slows, we expect that the seasonality in our business may become more pronounced and may in the future cause our operating results to fluctuate. For example, advertising spending is traditionally seasonally strong in the fourth quarter of each year and we believe that this seasonality affects our quarterly results, which generally reflect higher sequential advertising revenue growth from the third to fourth quarter compared to sequential advertising revenue growth from the fourth quarter to the subsequent first quarter. In addition, global economic concerns continue to create uncertainty and unpredictability and add risk to our future outlook. An economic downturn in any particular region in which we do business or globally could result in reductions in advertising revenue, as our advertisers reduce their advertising budgets, and other adverse effects that could harm our operating results.

We depend on highly skilled personnel to grow and operate our business, and if we are unable to hire, retain and motivate our personnel, we may not be able to grow effectively.

Our future success will depend upon our continued ability to identify, hire, develop, motivate and retain highly skilled personnel, including senior management, engineers, designers and product managers. Our ability to execute efficiently is dependent upon contributions from our employees, in particular our senior management team. We do not have employment agreements other than offer letters with any member of our senior management or other key employee, and we do not maintain key person life insurance for any employee. In addition, from time to time, there may be changes in our senior management team that may be disruptive to our business. If our senior management team, including any new hires that we may make, fails to work together effectively and to execute our plans and strategies on a timely basis, our business could be harmed.

Our growth strategy also depends on our ability to attract and retain highly skilled personnel. Identifying, recruiting, training and integrating qualified individuals will require significant time, expense and attention. In addition to hiring new employees, we must continue to focus on retaining our best employees. Because of our initial public offering, many of our employees are able to receive significant proceeds from sales of our equity in the public markets, which may reduce their motivation to continue to work for us. Competition for highly skilled personnel is intense, particularly in the San Francisco Bay Area, where our headquarters is located. We may need to invest significant amounts of cash and equity to attract and retain new employees and we may never realize returns on these investments. If we are not able to effectively attract and retain employees, our ability to achieve our strategic objectives will be adversely impacted, and our business will be harmed.

If we fail to expand effectively in international markets, our revenue and our business will be harmed.

We may not be able to monetize our products and services internationally as effectively as in the United States as a result of competition, advertiser demand, differences in the digital advertising market and digital advertising conventions, as well as differences in the way that users in different countries access or utilize our products and services. For example, most users in emerging markets like India and Pakistan use feature phones and communicate via SMS messaging, both of which have limited functionality and neither of which may be able to take full advantage of our products and services offered on smartphone or our website or desktop applications. Users who access Twitter through SMS messaging may monetize at lower rates than other users. Differences in the competitive landscape in international markets may impact our ability to monetize our products and services. For example, in South Korea we face intense competition from a messaging service offered by Kakao, which offers some of the same communication features as Twitter. The existence of a well-established competitor in an international market may adversely affect our ability to increase our user base, attract platform partners and advertisers and monetize our products in such market. We may also experience differences in advertiser demand in international markets. For example, during times of political upheaval, advertisers may choose not to advertise on Twitter. Certain international markets are also not as familiar with digital advertising in general, or in new forms of digital advertising such as our Promoted Products. Further, we face challenges in providing certain advertising products, features or analytics in certain international markets, such as the European Union, due to government regulation. Our products and services may also be used differently abroad than in the United States. In particular, in certain international markets where Internet access is not as rapid or reliable as in the United States, users tend not to take advantage of certain features of our products and services, such as rich media included in Tweets. The limitation of mobile devices of users in emerging and other markets limits our ability to deliver certain features to those users and may limit the ability of advertisers to deliver compelling advertisements to users in these markets which may result in reduced ad engagements which would adversely affect our business and operating results.

If our revenue from our international operations, and particularly from our operations in the countries and regions where we have focused our spending, does not exceed the expense of establishing and maintaining these operations, our business and operating results will suffer. In addition, our user base may expand more rapidly in international regions where we are less successful in monetizing our products and services. As our user base continues to expand internationally, we will need to increase revenue from the activity generated by our international users in order to grow our business. For example, users outside the United States constituted 79% of our average MAUs in the three months ended June 30, 2016, but our international revenue, as determined based on the billing location of our advertisers, was only 40% of our consolidated revenue in the three months ended June 30, 2016. Our inability to successfully expand internationally could adversely affect our business, financial condition and operating results.

User growth and engagement depend upon effective interoperation with operating systems, networks, devices, web browsers and standards that we do not control.

We make our products and services available across a variety of operating systems and through websites. We are dependent on the interoperability of our products and services with popular devices, desktop and mobile operating systems and web browsers that we do not control, such as Mac OS, Windows, Android, iOS, Chrome and Firefox. Any changes in such systems, devices or web browsers that degrade the functionality of our products and services, make it difficult for our users to access our content, limit our ability to target or measure the effectiveness of ads, impose fees related to our products or services or give preferential treatment to competitive products or services could adversely affect usage of our products and services. Further, if the number of platforms for which we develop our product expands, it will result in an increase in our operating expenses. In order to deliver high quality products and services, it is important that our products and services work well with a range of operating systems, networks, devices, web browsers and standards that we do not control. In addition, because a majority of our users access our products and services through mobile devices, we are particularly dependent on the interoperability of our products and services with mobile devices and operating systems. We may not be successful in developing relationships with key participants in the mobile industry or in developing products or services that operate effectively with these operating

systems, networks, devices, web browsers and standards. In the event that it is difficult for our users to access and use our products and services, particularly on their mobile devices, our user growth and engagement could be harmed, and our business and operating results could be adversely affected.

Our ability to convince potential and new users of the value of our products and services is critical to increasing our user base and to the success of our business.

We have developed a global platform for public self-expression and conversation in real time, and the market for our products and services is relatively new and may not develop as expected, if at all. Despite our efforts to reduce barriers to consumption, people who are not our users may not understand the value of our products and services and new users may initially find our product confusing. There may be a perception that our products and services are only useful to users who tweet, or to influential users with large audiences. Convincing potential and new users of the value of our products and services is critical to increasing our user base and to the success of our business.

If we fail to educate potential users and potential advertisers about the value of our products and services, if the market for our platform does not develop as we expect or if we fail to address the needs of this market, our business will be harmed. We may not be able to successfully address these risks and challenges or others. Failure to adequately address these risks and challenges could harm our business and cause our operating results to suffer.

We have incurred significant operating losses in the past, and we may not be able to achieve or subsequently maintain profitability.

Since our inception, we have incurred significant operating losses, and, as of June 30, 2016, we had an accumulated deficit of \$2.28 billion. Although our revenue has grown rapidly, increasing from \$28.3 million in 2010 to \$2.22 billion in 2015, we expect that our revenue growth rate will slow in the future as a result of a variety of factors, including the decline in the growth rate of our user base. We believe that our future revenue growth will depend on, among other factors, our ability to attract new users, increase user engagement and ad engagement, increase our brand awareness, compete effectively, maximize our sales efforts, demonstrate a positive return on investment for advertisers, successfully develop new products and services and expand internationally. Accordingly, you should not rely on the revenue growth of any prior quarterly or annual period as an indication of our future performance. We also expect our costs to increase in future periods as we continue to expend substantial financial resources on:

- our technology infrastructure;
- research and development for our products and services;
- sales and marketing;
- domestic and international expansion efforts, including the real estate and facilities costs associated with such expansions;
- attracting and retaining talented employees;
- strategic opportunities, including commercial relationships and acquisitions; and
- general administration, including personnel costs and legal and accounting expenses related to being a public company.

These investments may not result in increased revenue or growth in our business. If we are unable to generate adequate revenue growth and to manage our expenses, we may continue to incur significant losses in the future and may not be able to achieve or maintain profitability.

Our business depends on continued and unimpeded access to our products and services on the Internet by our users, platform partners and advertisers. If we or our users experience disruptions in Internet service or if Internet service providers are able to block, degrade or charge for access to our products and services, we could incur additional expenses and the loss of users and advertisers.

We depend on the ability of our users, platform partners and advertisers to access the Internet. Currently, this access is provided by companies that have significant market power in the broadband and Internet access marketplace, including incumbent telephone companies, cable companies, mobile communications companies, government-owned service providers, device manufacturers and operating system providers, any of whom could take actions that degrade, disrupt or increase the cost of user access to our products or services, which would, in turn, negatively impact our business. The adoption of any laws or regulations that adversely affect the growth, popularity or use of the Internet, including laws or practices limiting Internet neutrality, could decrease the demand for, or the usage of, our products and services, increase our cost of doing business and adversely affect our operating results. For example, access to Twitter is blocked in China and has been intermittently blocked in Turkey in 2014 and 2015. We also rely on other companies to maintain reliable network systems that provide adequate speed, data capacity and security to us and our users. As the Internet continues to experience growth in the number of users, frequency of use and amount of data transmitted, the Internet infrastructure that we and our users rely on may be unable to support the demands placed upon it. The failure of the Internet infrastructure that we or our users rely on, even for a short period of time, could undermine our operations and harm our operating results.

Our new products, product features, services and initiatives and changes to existing products, services and initiatives could fail to attract users, platform partners and advertisers or generate revenue.

Our ability to increase the size and engagement of our user base, attract platform partners and advertisers and generate revenue will depend in part on our ability to improve existing products and services and create successful new products and services, both independently and in conjunction with third parties. We may introduce significant changes to our existing products and services or develop and introduce new and unproven products and services, including technologies with which we have little or no prior development or operating experience. For example, in 2015, we introduced Periscope, a mobile application that lets users share and experience live video from their mobile phones and in 2013, we introduced Vine, a mobile application that enables users to create and distribute videos that are up to six seconds in length. Also, we recently introduced new features to Twitter such as “Moments”, a curated collection of Tweets, photos, videos, Vines and Periscope broadcasts about current news stories or events; “While You Were Away,” which surfaces Tweets a logged-in user may have missed since last accessing Twitter; and Instant Timeline, which helps create a timeline for new users as well as new features to our Promoted Tweets like promoted video ads. If new or enhanced products, product features or services fail to engage users, platform partners and advertisers, we may fail to attract or retain users or to generate sufficient revenue or operating profit to justify our investments, and our business and operating results could be adversely affected. In addition, we have launched and expect to continue to launch strategic initiatives, such as the Nielsen Twitter TV Rating, that do not directly generate revenue but which we believe will enhance our attractiveness to users, platform partners and advertisers. In the future, we may invest in new products, product features, services and initiatives to generate revenue, but there is no guarantee these approaches will be successful. We may not be successful in future efforts to generate revenue from our new products or services. If our strategic initiatives do not enhance our ability to monetize our existing products and services or enable us to develop new approaches to monetization, we may not be able to maintain or grow our revenue or recover any associated development costs and our operating results could be adversely affected.

If we fail to effectively manage our growth, our business and operating results could be harmed.

We expect to invest in our headcount and operations, which will continue to place significant demands on our management, operational and financial infrastructure. As of June 30, 2016, we had 3,860 full-time employees, a decrease of approximately 260 full-time employees since June 30, 2015. We intend to continue to make investments to expand our operations, research and development, sales and marketing and general and administrative organizations, as well as our international operations. We face significant competition for employees, particularly engineers, designers and product managers, from other Internet and high-growth companies, which include both publicly-traded and privately-held companies, and we may not be able to hire new employees quickly enough to meet our needs. To attract highly skilled personnel, we have had to offer, and believe we will need to continue to offer, highly competitive compensation packages. In addition, as we have grown, we have significantly expanded our operating lease commitments. As we continue to evolve, we are subject to the risks of over-hiring, over-compensating our employees and over-expanding our operating infrastructure, and to the challenges of integrating, developing and motivating a rapidly growing employee base in various countries around the world. In addition, we may not be able to innovate or execute as quickly as a smaller, more efficient organization. If we fail to effectively manage our hiring needs and successfully integrate our new hires, our efficiency and ability to meet our forecasts and our employee morale, productivity and retention could suffer, and our business and operating results could be adversely affected.

Providing our products and services to our users is costly and we expect our expenses to continue to increase in the future as we broaden our user base and increase user engagement, as users increase the amount of content they contribute, and as we develop and implement new features, products and services that require more infrastructure, such as our mobile video products, Vine and Periscope. In addition, our operating expenses, such as our research and development expenses and sales and marketing expenses, have grown rapidly as we have expanded our business. Historically, our costs have increased each year due to these factors and we expect to continue to incur increasing costs to support our anticipated future growth. We expect to continue to invest in our infrastructure so that we can provide our products and services rapidly and reliably to users around the world, including in countries where we do not expect significant near-term monetization. Continued growth could also strain our ability to maintain reliable service levels for our users and advertisers, develop and improve our operational, financial, legal and management controls, and enhance our reporting systems and procedures. As a public company we incur significant legal, accounting and other expenses that we did not incur as a private company. Our expenses may grow faster than our revenue, and our expenses may be greater than we anticipate. Managing our growth will require significant expenditures and allocation of valuable management resources. If we fail to achieve the necessary level of efficiency in our organization as it grows, our business, operating results and financial condition would be harmed.

We focus on product innovation and user engagement rather than short-term operating results.

We encourage employees to quickly develop and help us launch new and innovative features. We focus on improving the user experience for our products and services, which includes protecting user privacy, and on developing new and improved products and services for the advertisers on our platform. We prioritize innovation and the experience for users and advertisers on our platform over short-term operating results. We frequently make product, product feature and service decisions that may reduce our short-term operating results if we believe that the decisions are consistent with our goals to improve the user experience and performance for advertisers, which we believe will improve our operating results over the long term. For example, we are investing in new experiences using video, such as our new live-streaming video experiences, and we may not successfully monetize such experiences. These decisions may not be consistent with the short-term expectations of investors and may not produce the long-term benefits that we expect, in which case our user growth and user engagement, our relationships with advertisers and our business and operating results could be harmed. In addition, our focus on the user experience may negatively impact our relationships with our existing or prospective advertisers. This could result in a loss of advertisers, which could harm our revenue and operating results.

Our business and operating results may be harmed by a disruption in our service, or by our failure to timely and effectively scale and adapt our existing technology and infrastructure.

One of the reasons people come to Twitter is for real-time information. We have experienced, and may in the future experience, service disruptions, outages and other performance problems due to a variety of factors, including infrastructure changes, human or software errors, hardware failure, capacity constraints due to an overwhelming number of people accessing our products and services simultaneously, computer viruses and denial of service or fraud or security attacks. For instance, in January 2016, we experienced a brief service outage during which Twitter.com and Twitter mobile clients were inaccessible as a result, in part, of a software misconfiguration in one of our infrastructure components. Additionally, although we are investing significantly to improve the capacity, capability and reliability of our infrastructure, we are not currently serving traffic equally through our co-located data centers that support our platform. Accordingly, in the event of a significant issue at the data center supporting most of our network traffic, some of our products and services may become inaccessible to the public or the public may experience difficulties accessing our products and services. Any disruption or failure in our infrastructure could hinder our ability to handle existing or increased traffic on our platform, which could significantly harm our business.

As the number of our users increases and our users generate more content, including photos and videos hosted by Twitter, we may be required to expand and adapt our technology and infrastructure to continue to reliably store, serve and analyze this content. It may become increasingly difficult to maintain and improve the performance of our products and services, especially during peak usage times, as our products and services become more complex and our user traffic increases. In addition, because we lease our data center facilities, we cannot be assured that we will be able to expand our data center infrastructure to meet user demand in a timely manner, or on favorable economic terms. If our users are unable to access Twitter or we are not able to make information available rapidly on Twitter, users may seek other channels to obtain the information, and may not return to Twitter or use Twitter as often in the future, or at all. This would negatively impact our ability to attract users, platform partners and advertisers and increase engagement of our users. We expect to continue to make significant investments to maintain and improve the capacity, capability and reliability of our infrastructure. To the extent that we do not effectively address capacity constraints, upgrade our systems as needed and continually develop our technology and infrastructure to accommodate actual and anticipated changes in technology, our business and operating results may be harmed.

If we are unable to maintain and promote our brand, our business and operating results may be harmed.

We believe that maintaining and promoting our brand is critical to expanding our base of users, platform partners and advertisers. Maintaining and promoting our brand will depend largely on our ability to continue to provide useful, reliable and innovative products and services, which we may not do successfully. We may introduce new features, products, services or terms of service that users, platform partners or advertisers do not like, which may negatively affect our brand. Additionally, the actions of platform partners may affect our brand if users do not have a positive experience using third-party applications or websites integrated with Twitter or that make use of Twitter content. Our brand may also be negatively affected by the actions of users that are hostile or inappropriate to other people, by users impersonating other people, by users identified as spam, by users introducing excessive amounts of spam on our platform or by third parties obtaining control over users' accounts. For example, in April 2013, attackers obtained the credentials to the Twitter account of the Associated Press news service through a "phishing" attack targeting Associated Press employees. The attackers posted an erroneous Tweet from the Associated Press account reporting that there had been explosions at the White House, triggering a stock market decline, and focusing media attention on our brand and security efforts. Maintaining and enhancing our brand may require us to make substantial investments and these investments may not achieve the desired goals. If we fail to successfully promote and maintain our brand or if we incur excessive expenses in this effort, our business and operating results could be adversely affected.

Negative publicity could adversely affect our business and operating results.

We receive a high degree of media coverage around the world. Negative publicity about our company, including about our product quality and reliability, changes to our products and services, privacy and security practices, litigation, regulatory activity, the actions of our users or user experience with our products and services, even if inaccurate, could adversely affect our reputation and the confidence in and the use of our products and services. Such negative publicity could also have an adverse effect on the size, engagement and loyalty of our user base and result in decreased revenue, which could adversely affect our business and operating results.

Action by governments to restrict access to our products and services or censor Twitter content could harm our business and operating results.

Governments have sought, and may in the future seek, to censor content available through our products and services, restrict access to our products and services from their country entirely or impose other restrictions that may affect the accessibility of our products and services for an extended period of time or indefinitely. For example, domestic Internet service providers in China have blocked access to Twitter, and other countries, including Iran, Libya, Pakistan, Turkey and Syria, have intermittently restricted access to Twitter, and we believe that access to Twitter has been blocked in these countries primarily for political reasons. In addition, governments in these or other countries may seek to restrict access to our products and services based on our decisions around user content, providing user information in response to governmental requests, or other matters. In the event that access to our products and services is restricted, in whole or in part, in one or more countries or our competitors are able to successfully penetrate geographic markets that we cannot access, our ability to retain or increase our user base and user engagement may be adversely affected, and our operating results may be harmed.

Our future performance depends in part on support from platform partners and data partners.

We believe user engagement with our products and services depends in part on the availability of applications and content generated by platform partners. For instance, in October 2014, we launched Fabric, a platform that offers lightweight modular software development kits that help developers build more stable applications, generate revenue through Twitter's mobile advertising exchange, MoPub, and tap into Twitter's sign-in systems for simpler identity verification. If platform partners focus their efforts on other platforms despite these and other efforts, the availability and quality of applications and content for our products and services may suffer. There is no assurance that platform partners will continue to develop and maintain applications and content for our products and services. If platform partners cease to develop and maintain applications and content for our products and services, user engagement may decline. In addition, we generate revenue from licensing our historical and real-time data to third parties. If any of these relationships are terminated or not renewed, or if we are unable to enter into similar relationships in the future, our operating results could be adversely affected.

Our international operations are subject to increased challenges and risks.

We have offices around the world and our products and services are available in multiple languages. We expect to continue to expand our international operations in the future by opening offices in new jurisdictions and expanding our offerings in new languages. However, our ability to manage our business and conduct our operations internationally requires considerable management attention and resources and is subject to the particular challenges of supporting a rapidly growing business in an environment of multiple languages, cultures, customs, legal and regulatory systems, alternative dispute systems and commercial markets. International expansion has required and will continue to require us to invest significant funds and other resources. Operating internationally subjects us to new risks and may increase risks that we currently face, including risks associated with:

- recruiting and retaining talented and capable employees in foreign countries and maintaining our company culture across all of our offices;
- providing our products and services and operating across a significant distance, in different languages and among different cultures, including the potential need to modify our products, services, content and features to ensure that they are culturally relevant in different countries;
- increased competition from largely regional websites, mobile applications and services that provide real-time communications and have strong positions in particular countries, which have expanded and may continue to expand their geographic footprint;
- differing and potentially lower levels of user growth, user engagement and ad engagement in new and emerging geographies;
- different levels of advertiser demand;

- greater difficulty in monetizing our products and services;
- compliance with applicable foreign laws and regulations, including laws and regulations with respect to privacy, data security, consumer protection, spam and content, and the risk of penalties to our users and individual members of management if our practices are deemed to be out of compliance;
- longer payment cycles in some countries;
- credit risk and higher levels of payment fraud;

- operating in jurisdictions that do not protect intellectual property rights to the same extent as the United States;
- compliance with anti-bribery laws including, without limitation, compliance with the Foreign Corrupt Practices Act and the U.K. Bribery Act, including by our business partners;
- currency exchange rate fluctuations;
 - foreign exchange controls that might require significant lead time in setting up operations in certain geographic territories and might prevent us from repatriating cash earned outside the United States;
- political and economic instability in some countries;
- double taxation of our international earnings and potentially adverse tax consequences due to changes in the tax laws of the United States or the foreign jurisdictions in which we operate; and
- higher costs of doing business internationally, including increased accounting, travel, infrastructure and legal compliance costs.

If we are unable to manage the complexity of our global operations successfully, our business, financial condition and operating results could be adversely affected.

Our products and services may contain undetected software errors, which could harm our business and operating results.

Our products and services incorporate complex software and we encourage employees to quickly develop and help us launch new and innovative features. Our software, including any open source software that is incorporated into our code, has contained, and may now or in the future contain, errors, bugs or vulnerabilities. For example, in February 2016, we discovered, and corrected, a bug that affected our password recovery systems for about 24 hours. Although this issue did not expose passwords or information that could be used directly to access an account, it had the potential to expose the email address and phone number associated with a small number of accounts (less than 10,000 active accounts). Some errors in our software code may only be discovered after the product or service has been released. Any errors, bugs or vulnerabilities discovered in our code after release could result in damage to our reputation, loss of users, loss of platform partners, loss of advertisers or advertising revenue or liability for damages or regulatory inquiries or lawsuits, any of which could adversely affect our business and operating results.

Our business is subject to complex and evolving U.S. and foreign laws and regulations. These laws and regulations are subject to change and uncertain interpretation, and could result in claims, changes to our business practices, monetary penalties, increased cost of operations or declines in user growth, user engagement or ad engagement, or otherwise harm our business.

We are subject to a variety of laws and regulations in the United States and abroad that involve matters central to our business, including privacy, rights of publicity, data protection, content regulation, intellectual property, competition, protection of minors, consumer protection, credit card processing and taxation. Many of these laws and regulations are still evolving and being tested in courts. As a result, it is possible that these laws and regulations may be interpreted and applied in a manner that is inconsistent from country to country and inconsistent with our current policies and practices and in ways that could harm our business, particularly in the new and rapidly evolving industry in which we operate. Additionally, the introduction of new products or services may subject us to additional laws and regulations.

From time to time, governments, regulators and others have expressed concerns about whether our products, services or practices compromise the privacy of users and others. While we strive to comply with applicable data protection laws and regulations, as well as our own posted privacy policies and other obligations we may have with respect to privacy and data protection, the failure or perceived failure to so comply may result, and in some cases has resulted, in inquiries and other proceedings or actions against us by governments, regulators or others. Moreover, foreign data protection, privacy, consumer protection, content regulation and other laws and regulations are often more restrictive than those in the United States. In particular, the European Union and its member states traditionally have taken broader views as to types of data that are subject to privacy and data protection, and have imposed greater legal obligations on companies in this regard. A number of proposals are pending before federal, state and foreign legislative and regulatory bodies that could significantly affect our business. For example, regulation relating to the 1995 European Union Data Protection Directive has been adopted by European legislative bodies that will be effective in May 2018 and will include more stringent operational requirements for entities processing personal information and significant penalties for non-compliance. Additionally, in October 2015, the Court of Justice of the European Union invalidated the EU-U.S. Safe Harbor Framework. We rely upon the EU-U.S. Safe Harbor Framework to transfer certain personal information of European Union residents to the United States, and revocation of the Safe Harbor Framework could require us to create duplicative, and potentially expensive, information technology infrastructure and business operations in Europe or limit our ability to collect and use personal information collected in Europe. U.S. and EU authorities reached a political agreement on February 2, 2016 regarding a new potential means for legitimizing personal data transfers from the European Economic Area to the U.S., the EU-U.S. Privacy Shield, but it is unclear whether the EU-U.S. Privacy Shield will be formally implemented and whether the EU-U.S. Privacy Shield, if formally implemented, would include significant data transfer restrictions that could impact our business or result in substantial expense to implement. Any of these could disrupt our business.

Similarly, there have been a number of recent legislative proposals in the United States, at both the federal and state level, that would impose new obligations in areas such as privacy and liability for copyright infringement by third parties. The U.S. government, including the FTC and the Department of Commerce, has announced that it is reviewing the need for greater regulation for the collection of information concerning user behavior on the Internet, including regulation aimed at restricting certain online tracking and targeted advertising practices. Additionally, recent amendments to U.S. patent laws may affect the ability of companies, including us, to protect their innovations and defend against claims of patent infringement.

Additionally, we have built and made available certain commerce solutions that connect customers and retail partners and we have relationships with third parties that perform a variety of functions such as credit card processing, tokenization, vaulting, currency conversion, fraud prevention and data security audits. The laws and regulations related to e-commerce and payments are complex, subject to change, and vary across different jurisdictions in the United States and globally. As a result, we may be required to spend significant time, effort and expense to comply with applicable laws and regulations. Any failure or claim of our failure to comply, or any failure or claim of failure by the above-mentioned third parties to comply, could increase our costs or could result in liabilities. Additionally, because Twitter accepts payment via credit cards and is certified as a PCI Level 1 service provider, we are subject to payment card association operating rules and certification requirements, including the Payment Card Industry Data Security Standard.

We currently allow use of our platform without the collection of extensive personal information, such as age. We may experience additional pressure to expand our collection of personal information in order to comply with new and additional regulatory demands or we may independently decide to do so. If we obtain such additional personal information, we may be subject to additional regulation.

Regulatory investigations and settlements could cause us to incur additional expenses or change our business practices in a manner materially adverse to our business.

We have been subject to regulatory investigations in the past, and expect to continue to be subject to regulatory scrutiny as our business grows and awareness of our brand increases. In March 2011, to resolve an investigation into various incidents, we entered into a settlement agreement with the FTC that, among other things, required us to establish an information security program designed to protect non-public consumer information and also requires that we obtain biennial independent security assessments. The obligations under the settlement agreement remain in effect until the later of March 2, 2031, or the date 20 years after the date, if any, on which the U.S. government or the FTC files a complaint in federal court alleging any violation of the order. We expect to continue to be the subject of regulatory inquiries, investigations and audits in the future by the FTC and other regulators around the world.

It is possible that a regulatory inquiry, investigation or audit might result in changes to our policies or practices, and may cause us to incur substantial costs or could result in reputational harm, prevent us from offering certain products, services, features or functionalities, cause us to incur substantial costs or require us to change our business practices in a manner materially adverse to our business. Violation of existing or future regulatory orders, settlements or consent decrees could subject us to substantial monetary fines and other penalties that could negatively affect our financial condition and operating results.

If our security measures are breached, or if our products and services are subject to attacks that degrade or deny the ability of users to access our products and services, our products and services may be perceived as not being secure, users and advertisers may curtail or stop using our products and services and our business and operating results could be harmed.

Our products and services involve the storage and transmission of users' and advertisers' information, and security breaches expose us to a risk of loss of this information, litigation and potential liability. We also work with third-party vendors to process credit card payments by our customers and are subject to payment card association operating rules. We experience cyber-attacks of varying degrees on a regular basis, and as a result, unauthorized parties have obtained, and may in the future obtain, access to our data or our users' or advertisers' data. For example, in February 2013, we disclosed that sophisticated unknown third parties had attacked our systems and may have had access to limited information for approximately 250,000 users. Any systems failure or compromise of our security that results in the unauthorized access to or release of our users' or advertisers' data, such as credit card data, could significantly limit the adoption of our products and services, as well as harm our reputation and brand and, therefore, our business. Our security measures may also be breached due to employee error, malfeasance or otherwise. Additionally, outside parties may attempt to fraudulently induce employees, users or advertisers to disclose sensitive information in order to gain access to our data or our users' or advertisers' data or accounts, or may otherwise obtain access to such data or accounts. Since our users and advertisers may use their Twitter accounts to establish and maintain online identities, unauthorized communications from Twitter accounts that have been compromised may damage their reputations and brands as well as ours. Because the techniques used to obtain unauthorized access, disable or degrade service or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed, our users and advertisers may be harmed, lose trust and confidence in us, decrease the use of our products and services or stop using our products and services in their entirety. We may also incur significant legal and financial exposure, including legal claims, higher transaction fees and regulatory fines and penalties. Any of these actions could have a material and adverse effect on our business, reputation and operating results.

We may face lawsuits or incur liability as a result of content published or made available through our products and services.

We have faced and will continue to face claims relating to content that is published or made available through our products and services or third party products or services. In particular, the nature of our business exposes us to claims related to defamation, intellectual property rights, rights of publicity and privacy, illegal content, content regulation and personal injury torts. The laws relating to the liability of providers of online products or services for activities of their users remains somewhat unsettled, both within the United States and internationally. This risk may be enhanced in certain jurisdictions outside the United States where we may be less protected under local laws than we are in the United States. In addition, the public nature of communications on our network exposes us to risks arising from the creation of impersonation accounts intended to be attributed to our users or advertisers. We could incur significant costs investigating and defending these claims. If we incur material costs or liability as a result of these occurrences, our business, financial condition and operating results could be adversely affected.

Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our products, services and brand.

Our trade secrets, trademarks, copyrights, patents and other intellectual property rights are important assets. We rely on, and expect to continue to rely on, a combination of confidentiality and license agreements with our employees, consultants and third parties with whom we have relationships, as well as trademark, trade dress, domain name, copyright, trade secret and patent laws, to protect our brand and other intellectual property rights. However, various events outside of our control pose a threat to our intellectual property rights, as well as to our products, services and technologies. For example, we may fail to obtain effective intellectual property protection, or effective intellectual property protection may not be available in every country in which our products and services are available. Also, the efforts we have taken to protect our intellectual property rights may not be sufficient or effective, and any of our intellectual property rights may be challenged, which could result in them being narrowed in scope or declared invalid or unenforceable. There can be no assurance our intellectual property rights will be sufficient to protect against others offering products or services that are substantially similar to ours and compete with our business.

We rely on non-patented proprietary information and technology, such as trade secrets, confidential information, know-how and technical information. While in certain cases we have agreements in place with employees and third parties that place restrictions on the use and disclosure of this intellectual property, these agreements may be breached, or this intellectual property may otherwise be disclosed or become known to our competitors, which could cause us to lose any competitive advantage resulting from this intellectual property.

We are pursuing registration of trademarks and domain names in the United States and in certain jurisdictions outside of the United States. Effective protection of trademarks and domain names is expensive and difficult to maintain, both in terms of application and registration costs as well as the costs of defending and enforcing those rights. We may be required to protect our rights in an increasing number of countries, a process that is expensive and may not be successful or which we may not pursue in every country in which our products and services are distributed or made available.

We are party to numerous agreements that grant licenses to third parties to use our intellectual property, including our trademarks. For example, many third parties distribute their content through Twitter, or embed Twitter content in their applications or on their websites, and make use of our trademarks in connection with their services. If the licensees of our trademarks are not using our trademarks properly, it may limit our ability to protect our trademarks and could ultimately result in our trademarks being declared invalid or unenforceable. We have a policy designed to assist third parties in the proper use of our brand, trademarks and other assets, and we have an internal team dedicated to enforcing our policy and protecting our brand. Our brand protection team routinely receives and reviews reports of improper and unauthorized use of the Twitter brand, trademarks or assets and issues takedown notices or initiates discussions with the third parties to correct the issues. However, there can be no assurance that we will be able to protect against the unauthorized use of our brand, trademarks or other assets. If we fail to maintain and enforce our trademark rights, the value of our brand could be diminished. There is also a risk that one or more of our trademarks could become generic, which could result in them being declared invalid or unenforceable. For example, there is a risk that the word "Tweet" could become so commonly used that it becomes synonymous with any short comment posted publicly on the Internet, and if this happens, we could lose protection of this trademark.

We also seek to obtain patent protection for some of our technology and as of June 30, 2016, we had 1,008 issued U.S. patents. We may be unable to obtain patent protection for our technologies, and our existing patents, and any patents that may be issued in the future, may not provide us with competitive advantages or distinguish our products and services from those of our competitors. In addition, any patents may be contested, circumvented, or found unenforceable or invalid, and we may not be able to prevent third parties from infringing or otherwise violating them. Effective protection of patent rights is expensive and difficult to maintain, both in terms of application and maintenance costs, as well as the costs of defending and enforcing those rights.

Our Innovator's Patent Agreement, or IPA, also limits our ability to prevent infringement of our patents. In May 2013, we implemented the IPA, which we enter into with our employees and consultants, including our founders. The IPA, which applies to our current and future patents, allows us to assert our patents defensively. The IPA also allows us to assert our patents offensively with the permission of the inventors of the applicable patent. Under the IPA, an assertion of claims is considered for a defensive purpose if the claims are asserted: (i) against an entity that has filed, maintained, threatened or voluntarily participated in a patent infringement lawsuit against us or any of our users, affiliates, customers, suppliers or distributors; (ii) against an entity that has used its patents offensively against any other party in the past ten years, so long as the entity has not instituted the patent infringement lawsuit defensively in response to a patent litigation threat against the entity; or (iii) otherwise to deter a patent litigation threat against us or our users, affiliates, customers, suppliers or distributors. In addition, the IPA provides that the above limitations apply to any future owner or exclusive licensee of any of our patents, which could limit our ability to sell or license our patents to third parties. While we may be able to claim protection of our intellectual property under other rights, such as trade secrets or contractual obligations with our employees not to disclose or use confidential information, we may be unable to assert our patent rights against third parties that we believe are infringing our patents, even if such third parties are developing products and services that compete with our products and services. For example, in the event that an inventor of one of our patents leaves us for another company and uses our patented technology to compete with us, we would not be able to assert that patent against such other company unless the assertion of the patent right is for a defensive purpose. In such event, we may be limited in our ability to assert a patent right against another company, and instead would need to rely on trade secret protection or the contractual obligation of the inventor to us not to disclose or use our confidential information. In addition, the terms of the IPA could affect our ability to monetize our intellectual property portfolio.

Significant impairments of our intellectual property rights, and limitations on our ability to assert our intellectual property rights against others, could harm our business and our ability to compete.

Also, obtaining, maintaining and enforcing our intellectual property rights is costly and time consuming. Any increase in the unauthorized use of our intellectual property could make it more expensive to do business and harm our operating results.

We are currently, and expect to be in the future, party to intellectual property rights claims that are expensive and time consuming to defend, and, if resolved adversely, could have a significant impact on our business, financial condition or operating results.

Companies in the Internet, technology and media industries are subject to litigation based on allegations of infringement, misappropriation or other violations of intellectual property or other rights. Many companies in these industries, including many of our competitors, have substantially larger patent and intellectual property portfolios than we do, which could make us a target for litigation as we may not be able to assert counterclaims against parties that sue us for patent, or other intellectual property infringement. In addition, various "non-practicing entities" that own patents and other intellectual property rights often attempt to assert claims in order to extract value from technology companies. From time to time we receive claims from third parties which allege that we have infringed upon their intellectual property rights. Further, from time to time we may introduce new products, product features and services, including in areas where we currently do not have an offering, which could increase our exposure to patent and other intellectual property claims from competitors and non-practicing entities. In addition, although our standard terms and conditions for our Promoted Products and public APIs do not provide advertisers and platform partners with indemnification for intellectual property claims against them, some of our agreements with advertisers, platform partners and data partners require us to indemnify them for certain intellectual property claims against them, which could require us to incur considerable costs in defending such claims, and may require us to pay significant damages in the event of an adverse ruling. Such advertisers, platform partners and data partners may also discontinue use of our products, services and technologies as a result of injunctions or otherwise, which could result in loss of revenue and adversely impact our business.

We presently are involved in a number of intellectual property lawsuits, and as we face increasing competition and gain an increasingly high profile, we expect the number of patent and other intellectual property claims against us to grow. There may be intellectual property or other rights held by others, including issued or pending patents, that cover significant aspects of our products and services, and we cannot be sure that we are not infringing or violating, and have not infringed or violated, any third-party intellectual property rights or that we will not be held to have done so or be accused of doing so in the future. Any claim or litigation alleging that we have infringed or otherwise violated intellectual property or other rights of third parties, with or without merit, and whether or not settled out of court or determined in our favor, could be time-consuming and costly to address and resolve, and could divert the time and attention of our management and technical personnel. Some of our competitors have substantially greater resources than we do and are able to sustain the costs of complex intellectual property litigation to a greater degree and for longer periods of time than we could. The outcome of any litigation is inherently uncertain, and there can be no assurances that favorable final outcomes will be obtained in all cases. In addition, plaintiffs may seek, and we may become subject to, preliminary or provisional rulings in the course of any such litigation, including potential preliminary injunctions requiring us to cease some or all of our operations. We may decide to settle such lawsuits and disputes on terms that are unfavorable to us. Similarly, if any litigation to which we are a party is resolved adversely, we may be subject to an unfavorable judgment that may not be reversed upon appeal. The terms of such a settlement or judgment may require us to cease some or all of our operations or pay substantial amounts to the other party. In addition, we may have to seek a license to continue practices found to be in violation of a third-party's rights. If we are required, or choose to enter into royalty or licensing arrangements, such arrangements may not be available on reasonable terms, or at all, and may significantly increase our operating costs and expenses. As a result, we may also be required to develop or procure alternative non-infringing technology, which could require significant effort and expense or discontinue use of the technology. An unfavorable resolution of the disputes and litigation referred to above could adversely affect our business, financial condition and operating results.

Many of our products and services contain open source software, and we license some of our software through open source projects, which may pose particular risks to our proprietary software, products, and services in a manner that could have a negative effect on our business.

We use open source software in our products and services and will use open source software in the future. In addition, we regularly contribute software source code to open source projects under open source licenses or release internal software projects under open source licenses, and anticipate doing so in the future. The terms of many open source licenses to which we are subject have not been interpreted by U.S. or foreign courts, and there is a risk that open source software licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to provide or distribute our products or services. Additionally, we may from time to time face claims from third parties claiming ownership of, or demanding release of, the open source software or derivative works that we developed using such software, which could include our proprietary source code, or otherwise seeking to enforce the terms of the applicable open source license. These claims could result in litigation and could require us to make our software source code freely available, purchase a costly license or cease offering the implicated products or services unless and until we can re-engineer them to avoid infringement. This re-engineering process could require significant additional research and development resources, and we may not be able to complete it successfully. In addition to risks related to license requirements, use of certain open source software may pose greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or controls on the origin of software. Any of these risks could be difficult to eliminate or manage, and, if not addressed, could have a negative effect on our business, financial condition and operating results.

We may require additional capital to support our operations or the growth of our business, and we cannot be certain that this capital will be available on reasonable terms when required, or at all.

From time to time, we may need additional financing to operate or grow our business. Our ability to obtain additional financing, if and when required, will depend on investor and lender demand, our operating performance, the condition of the capital markets and other factors, and we cannot assure you that additional financing will be available to us on

favorable terms when required, or at all. If we raise additional funds through the issuance of equity, equity-linked or debt securities, those securities may have rights, preferences or privileges senior to the rights of our common stock, and our existing stockholders may experience dilution. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support the operation or growth of our business could be significantly impaired and our operating results may be harmed.

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We rely on assumptions and estimates to calculate certain of our key metrics, and real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business.

The number of our active users is calculated using internal company data that has not been independently verified. While these numbers are based on what we believe to be reasonable calculations 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 estimate that false or spam accounts represent less than 5% of our MAUs as of December 31, 2015. However, this estimate is based on an internal review of a sample of accounts and we apply significant judgment in making this determination. As such, 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 currently 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, but we otherwise 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 mobile applications that automatically contact our servers for regular updates with no discernable user action involved, and this activity can cause our system to count the user associated with such a device as an active user on the day such contact occurs. The calculations of MAUs presented in this Quarterly Report on Form 10-Q may be affected by this activity. The impact of this automatic activity on our metrics varies by geography because mobile application usage varies in different regions of the world. In addition, our data regarding user geographic location is based on the IP address or phone number associated with the account when a user initially registered the account on Twitter. That IP address or phone number may not always accurately reflect a user's actual location at the time of such user's engagement on our platform.

We regularly review and may adjust our processes for calculating our internal metrics to improve their accuracy. We present and discuss our total audience based on both internal metrics and data from Google Analytics, which measures unique visitors to our properties. 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. If advertisers, platform partners or investors do not perceive our user metrics to be accurate representations of our user base or user engagement, or if we discover material inaccuracies in our user metrics, our reputation may be harmed and advertisers and platform partners may be less willing to allocate their budgets or resources to our products and services, which could negatively affect our business and operating results. Further, as our business develops, we may revise or cease reporting metrics if we determine that such metrics are no longer accurate or appropriate measures of our performance. For example, we stopped disclosing timeline views as we no longer believed that metric was helpful in measuring engagement on our platform. If investors, analysts or customers do not believe our reported measures of user engagement are sufficient or accurately reflect our business, we may receive negative publicity and our operating results may be harmed.

Spam could diminish the user experience on our platform, which could damage our reputation and deter our current and potential users from using our products and services.

“Spam” on Twitter refers to a range of abusive activities that are prohibited by our terms of service and is generally defined as unsolicited, repeated actions that negatively impact other users with the general goal of drawing user attention to a given account, site, product or idea. This includes posting large numbers of unsolicited mentions of a user, duplicate Tweets, misleading links (e.g., to malware or “click-jacking” pages) or other false or misleading content, and aggressively following and un-following accounts, adding users to lists, sending invitations, Retweeting and liking Tweets to inappropriately attract attention. Our terms of service also prohibit the creation of serial or bulk accounts, both manually or using automation, for disruptive or abusive purposes, such as to tweet spam or to

artificially inflate the popularity of users seeking to promote themselves on Twitter. Although we continue to invest resources to reduce spam on Twitter, we expect spammers will continue to seek ways to act inappropriately on our platform. In addition, we expect that increases in the number of users on our platform will result in increased efforts by spammers to misuse our platform. We continuously combat spam, including by suspending or terminating accounts we believe to be spammers and launching algorithmic changes focused on curbing abusive activities. Our actions to combat spam require the diversion of significant time and focus of our engineering team from improving our products and services. If spam increases on Twitter, this could hurt our reputation for delivering relevant content or reduce user growth and user engagement and result in continuing operational cost to us.

Our corporate culture has contributed to our success, and if we cannot maintain this culture as we grow, we could lose the innovation, creativity and teamwork fostered by our culture, and our business may be harmed.

We believe that our culture has been and will continue to be a key contributor to our success. From January 1, 2010 to June 30, 2016, we increased the size of our workforce by over 3,700 full-time employees, and we expect to continue to make investments in our employees. If we do not continue to develop our corporate culture or maintain our core values as we grow and evolve, we may be unable to foster the innovation, creativity and teamwork we believe we need to support our growth.

We rely in part on application marketplaces and Internet search engines to drive traffic to our products and services, and if we fail to appear high up in the search results or rankings, traffic to our platform could decline and our business and operating results could be adversely affected.

We rely on application marketplaces, such as Apple's App Store and Google's Play, to drive downloads of our mobile applications. In the future, Apple, Google or other operators of application marketplaces may make changes to their marketplaces which make access to our products and services more difficult. We also depend in part on Internet search engines, such as Google, Apple Spotlight, Bing and Yahoo, to drive traffic to our website. For example, when a user types an inquiry into a search engine, we rely on a high organic search result ranking of our webpages in these search results to refer the user to our website. However, our ability to maintain high organic search result rankings is not within our control. Our competitors' search engine optimization, or SEO, efforts may result in their websites receiving a higher search result page ranking than ours, or Internet search engines could revise their methodologies in a way that would adversely affect our search result rankings. If Internet search engines modify their search algorithms in ways that are detrimental to us, or if our competitors' SEO efforts are more successful than ours, the growth in our user base could slow. Our website has experienced fluctuations in search result rankings in the past, and we anticipate similar fluctuations in the future. Any reduction in the number of users directed to our mobile applications or website through application marketplaces and search engines could harm our business and operating results.

More people are using devices other than personal computers to access the Internet and new platforms to produce and consume content, and we need to continue to promote the adoption of our mobile applications, and our business and operating results may be harmed if we are unable to do so.

The number of people who access the Internet through devices other than personal computers, including mobile phones, tablets, video game consoles and television set-top devices, has increased dramatically in the past few years. In the six months ended June 30, 2016, 89% of our advertising revenue was generated from mobile devices. Since we generate a majority of our advertising revenue through users on mobile devices, we must continue to drive adoption of our mobile applications. However, in emerging markets like India and Pakistan, most users use feature phones and communicate via SMS messaging, both of which have limited functionality and neither of which may be able to take full advantage of our products and services offered on smartphone or our website or desktop applications. In addition, mobile users frequently change or upgrade their mobile devices. Our business and operating results may be harmed if our users do not install our mobile application when they change or upgrade their mobile device. Although we generate the majority of our advertising revenue from ad engagements on mobile devices, certain of our products and services, including Promoted Trends and Promoted Accounts, receive less prominence on our mobile applications than they do on our desktop applications. This has in the past reduced, and may in the future continue to reduce, the amount of revenue we are able to generate from these products and services as users increasingly access our products and services through mobile and alternative devices. In addition, as new devices and platforms are continually being released, users may consume content in a manner that is more difficult to monetize. If we are unable to develop products and services that are compatible with new devices and platforms, or if we are unable to drive continued adoption of our mobile applications, our business and operating results may be harmed.

Future acquisitions and investments could disrupt our business and harm our financial condition and operating results.

Our success will depend, in part, on our ability to expand our products, product features and services, and grow our business in response to changing technologies, user and advertiser demands, and competitive pressures. In some circumstances, we may determine to do so through the acquisition of complementary businesses and technologies rather than through internal development, including, for example, our acquisitions of Periscope, a live-streaming video mobile application, Vine, a mobile application that enables users to create and distribute videos that are up to six seconds in length, MoPub, a mobile-focused advertising exchange; and TellApart, Inc., a marketing technology company providing retailers and e-commerce advertisers with unique retargeting capabilities. The identification of suitable acquisition candidates can be difficult, time-consuming and costly, and we may not be able to successfully complete identified acquisitions. The risks we face in connection with acquisitions include:

- diversion of management time and focus from operating our business to addressing acquisition integration challenges;
- retention of key employees from the acquired company;
- cultural challenges associated with integrating employees from the acquired company into our organization;
- integration of the acquired company's accounting, management information, human resources and other administrative systems and processes;
- the need to implement or improve controls, procedures, and policies at a business that prior to the acquisition may have lacked effective controls, procedures and policies;
- liability for activities of the acquired company before the acquisition, including intellectual property infringement claims, violations of laws, commercial disputes, tax liabilities and other known and unknown liabilities;
- unanticipated write-offs or charges; and
- litigation or other claims in connection with the acquired company, including claims from terminated employees, users, former stockholders or other third parties.

Our failure to address these risks or other problems encountered in connection with our past or future acquisitions and investments could cause us to fail to realize the anticipated benefits of these acquisitions or investments, cause us to incur unanticipated liabilities, and harm our business generally. Future acquisitions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, amortization expenses, incremental operating expenses or the impairment of goodwill, any of which could harm our financial condition or operating results.

If we fail to maintain an effective system of disclosure controls and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable regulations could be impaired.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the Sarbanes-Oxley Act of 2002, as amended, or the Sarbanes-Oxley Act, and the listing standards of the New York Stock Exchange. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, we have expended, and anticipate that we will continue to expend, significant resources, including accounting-related costs and significant management oversight.

Any failure to develop or maintain effective controls, or any difficulties encountered in their implementation or improvement, could cause us to be subject to one or more investigations or enforcement actions by state or federal regulatory agencies, stockholder lawsuits or other adverse actions requiring us to incur defense costs, pay fines, settlements or judgments. Any such failures could also cause investors to lose confidence in our reported financial and other information, which would likely have a negative effect on the trading price of our common stock. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on the New York Stock Exchange.

If currency exchange rates fluctuate substantially in the future, our operating results, which are reported in U.S. dollars, could be adversely affected.

As we continue to expand our international operations, we will become more exposed to the effects of fluctuations in currency exchange rates. We incur expenses for employee compensation and other operating expenses at our international locations in the local currency, and accept payment from advertisers or data partners in currencies other than the U.S. dollar. Since we conduct business in currencies other than U.S. dollars but report our operating results in U.S. dollars, we face exposure to fluctuations in currency exchange rates. While we enter into foreign currency forward contracts with financial institutions to reduce the risk that our 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, exchange rate fluctuations between the U.S. dollar and other currencies could have a material impact on our operating results.

Servicing our convertible senior notes may require a significant amount of cash, and we may not have sufficient cash flow or the ability to raise the funds necessary to satisfy our obligations under such notes, and our future debt may contain limitations on our ability to pay cash upon conversion or repurchase of such notes.

In 2014, we issued \$935.0 million principal amount of 0.25% convertible senior notes due 2019, or the 2019 Notes, and \$954.0 million principal amount of 1.00% convertible senior notes due 2021, or the 2021 Notes and together with the 2019 Notes, the Notes, in private placements to qualified institutional buyers. As of June 30, 2016, we had a total par value of \$1.89 billion of outstanding Notes.

Holders of the Notes will have the right under the indenture for the Notes to require us to repurchase all or a portion of their notes upon the occurrence of a fundamental change before the relevant maturity date, in each case at a repurchase price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to the fundamental change repurchase date. In addition, upon conversion of the Notes, unless we elect to deliver solely shares of our common stock to settle such conversion (other than paying cash in lieu of delivering any fractional shares), we will be required to make cash payments in respect of the Notes being converted. Moreover, we will be required to repay the notes in cash at their maturity, unless earlier converted or repurchased.

Our ability to refinance the Notes, make cash payments in connection with conversions of the Notes or repurchase the Notes in the event of a fundamental change will depend on market conditions and our future performance, which is subject to economic, financial, competitive and other factors beyond our control. We also may not use the cash we have raised through the issuance of the Notes in an optimally productive and profitable manner. However, since inception we have incurred significant operating losses and we historically had not been cash flow positive and may not be in the future. As a result, we may not have enough available cash or be able to obtain financing on commercially reasonable terms or at all, at the time we are required to make repurchases of notes surrendered therefor or pay cash with respect to notes being converted or at their maturity and our level of indebtedness could adversely affect our future operations by increasing our vulnerability to adverse changes in general economic and industry conditions and by limiting or prohibiting our ability to obtain additional financing for future capital expenditures, acquisitions and general corporate and other purposes. In addition, if we are unable to make cash payments upon conversion of the Notes we would be required to issue significant amounts of our common stock, which would be dilutive to existing stockholders. If we do not have sufficient cash to repurchase the Notes following a fundamental change, we would be in default under the terms of the Notes, which could seriously harm our business. In addition, the terms of the Notes do not limit the amount of future indebtedness we may incur. If we incur significantly more debt, this could intensify the risks described above.

Our business is subject to the risks of earthquakes, fire, power outages, floods and other catastrophic events, and to interruption by man-made problems such as terrorism.

A significant natural disaster, such as an earthquake, fire, flood or significant power outage could have a material adverse impact on our business, operating results, and financial condition. Our headquarters and certain of our co-located data center facilities are located in the San Francisco Bay Area, a region known for seismic activity. Despite any precautions we may take, the occurrence of a natural disaster or other unanticipated problems at our data centers could result in lengthy interruptions in our services. In addition, acts of terrorism and other geo-political unrest could cause disruptions in our business. All of the aforementioned risks may be further increased if our disaster recovery plans prove to be inadequate. We have implemented a disaster recovery program, which allows us to move production to a back-up data center in the event of a catastrophe. Although this program is functional, we do not currently serve network traffic equally from each data center, so if our primary data center shuts down, there will be a period of time that our products or services, or certain of our products or services, will remain inaccessible to our users or our users may experience severe issues accessing our products and services.

We do not carry business interruption insurance sufficient to compensate us for the potentially significant losses, including the potential harm to our business that may result from interruptions in our ability to provide our products and services.

We may have exposure to greater than anticipated tax liabilities, which could adversely impact our operating results.

Our income tax obligations are based in part on our corporate operating structure, including the manner in which we develop, value and use our intellectual property and the scope of our international operations. The tax laws applicable to our international business activities, including the laws of the United States and other jurisdictions, are subject to interpretation. The taxing authorities of the jurisdictions in which we operate may challenge our methodologies for valuing developed technology (or other intangible assets) or intercompany arrangements, which could increase our worldwide effective tax rate and harm our financial condition and operating results. We are subject to review and audit by U.S. federal and state and foreign tax authorities. Tax authorities may disagree with certain positions we have taken and any adverse outcome of such a review or audit could have a negative effect on our financial position and operating results. In addition, our future income taxes could be adversely affected by earnings being lower than anticipated in jurisdictions that have lower statutory tax rates and higher than anticipated in jurisdictions that have higher statutory tax rates, by changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws, regulations or accounting principles, as well as certain discrete items. Greater than anticipated tax expenses, or disputes with tax authorities, could adversely impact our operating results.

If our goodwill or intangible assets become impaired, we may be required to record a significant charge to earnings.

Under generally accepted accounting principles in the United States, or GAAP, we review our intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. As of June 30, 2016, we had recorded a total of \$1.31 billion of goodwill and intangible assets. An adverse change in market conditions, particularly if such change has the effect of changing one of our critical assumptions or estimates, could result in a change to the estimation of fair value that could result in an impairment charge to our goodwill or intangible assets. Any such material charges may have a material negative impact on our operating results.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

As of December 31, 2015, we had U.S. federal net operating loss carryforwards of approximately \$3.37 billion and state net operating loss carryforwards of approximately \$1.34 billion. Under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, or the Code, if a corporation undergoes an "ownership change," the corporation's ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes, such as research tax

credits, to offset its post-change income and taxes may be limited. In general, an “ownership change” occurs if there is a cumulative change in our ownership by “5% shareholders” that exceeds 50 percentage points over a rolling three-year period. Similar rules may apply under state tax laws. In the event that it is determined that we have in the past experienced an ownership change, or if we experience one or more ownership changes as a result of future transactions in our stock, then we may be limited in our ability to use our net operating loss carryforwards and other tax assets to reduce taxes owed on the net taxable income that we earn. Any such limitations on the ability to use our net operating loss carryforwards and other tax assets could adversely impact our business, financial condition and operating results.

Risks Related to Ownership of Our Common Stock

Anti-takeover provisions contained in our amended and restated certificate of incorporation and amended and restated bylaws, as well as provisions of Delaware law, could impair a takeover attempt.

Our amended and restated certificate of incorporation, amended and restated bylaws and Delaware law contain provisions which could have the effect of rendering more difficult, delaying, or preventing an acquisition deemed undesirable by our board of directors. Among other things, our amended and restated certificate of incorporation and amended and restated bylaws include provisions:

- creating a classified board of directors whose members serve staggered three-year terms;
- authorizing “blank check” preferred stock, which could be issued by our board of directors without stockholder approval and may contain voting, liquidation, dividend and other rights superior to our common stock;
- limiting the liability of, and providing indemnification to, our directors and officers;
- limiting the ability of our stockholders to call and bring business before special meetings;
- requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors; and
- controlling the procedures for the conduct and scheduling of board of directors and stockholder meetings.

These provisions, alone or together, could delay or prevent hostile takeovers and changes in control or changes in our management.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation law, which prevents certain stockholders holding more than 15% of our outstanding common stock from engaging in certain business combinations without approval of the holders of at least two-thirds of our outstanding common stock not held by such 15% or greater stockholder.

Any provision of our amended and restated certificate of incorporation, amended and restated bylaws or Delaware law that has the effect of delaying, preventing or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

The market price of our common stock has been and will likely continue to be volatile, and you could lose all or part of your investment.

The market price of our common stock has been and may continue to be highly volatile in response to various factors, some of which are beyond our control. Since shares of our common stock were sold in our initial public offering in November 2013 at a price of \$26.00 per share, the reported high and low sales prices of our common stock has ranged from \$74.73 to \$13.72, through June 30, 2016. In addition to the factors discussed in this “Risk Factors” section and elsewhere in this Quarterly Report on Form 10-Q, factors that could cause fluctuations in the market price of our common stock include the following:

- price and volume fluctuations in the overall stock market from time to time;
- volatility in the market prices and trading volumes of technology stocks;
- changes in operating performance and stock market valuations of other technology companies generally, or those in our industry in particular;

- sales of shares of our common stock by us or our stockholders;
- our issuance of shares of our common stock, whether in connection with an acquisition or upon conversion of some or all of our outstanding Notes;
- failure of securities analysts to maintain coverage of us, changes in financial estimates by securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- the financial or non-financial metric projections we may provide to the public, any changes in those projections or our failure to meet those projections;
- announcements by us or our competitors of new products or services;
- the public's reaction to our press releases, other public announcements and filings with the SEC;
- rumors and market speculation involving us or other companies in our industry;
- actual or anticipated changes in our operating results or fluctuations in our operating results;
- actual or anticipated developments in our business, our competitors' businesses or the competitive landscape generally;
- litigation involving us, our industry or both, or investigations by regulators into our operations or those of our competitors;
- developments or disputes concerning our intellectual property or other proprietary rights;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidelines, interpretations or principles;
- any significant change in our management; and
- general economic conditions and slow or negative growth of our markets.

In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

The note hedge and warrant transactions may affect the value of our common stock.

Concurrently with the issuance of the Notes, we entered into note hedge transactions with certain financial institutions, which we refer to as the option counterparties. The note hedge transactions are generally expected to reduce the potential dilution upon any conversion of the Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted Notes, as the case may be. We also entered into warrant transactions with the option counterparties. However, the warrant transactions could separately have a dilutive effect to the extent that the market price per share of our common stock exceeds the applicable strike price of the warrants.

The option counterparties or their respective affiliates may modify their initial hedge positions by entering into or unwinding various derivatives contracts with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the Notes (and are likely to do so during any observation period related to a conversion of Notes or following any repurchase of Notes by us on any fundamental change repurchase date or otherwise). This activity could cause or avoid an increase or a decrease in the market price of our common stock.

In addition, if any such convertible note hedge and warrant transactions fail to become effective, the option counterparties or their respective affiliates may unwind their hedge positions with respect to our common stock, which could adversely affect the value of our common stock.

If securities or industry analysts do not publish or cease publishing research or reports about us, our business or our market, or if they change their recommendations regarding our common stock adversely, the price of our common stock and trading volume could decline.

The trading market for our common stock is influenced, to some extent, by the research and reports that securities or industry analysts publish about us, our business, our industry, our market or our competitors. If any of the analysts who cover us change their recommendation regarding our common stock adversely, or provide more favorable relative recommendations about our competitors, the price of our common stock would likely decline. If any analysts who cover us were to cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause the price of our common stock or trading volume to decline.

We do not expect to declare any dividends in the foreseeable future.

We do not anticipate declaring any cash dividends to holders of our common stock in the foreseeable future. In addition, our credit facility contains restrictions on payments including payments of cash dividends. Consequently, investors may need to rely on sales of our common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Unregistered Sales of Equity Securities

During the three months ended June 30, 2016, we issued a total of 3,104,882 shares of our common stock to a strategic partner and in connection with the acquisition of one company.

None of the foregoing transactions involved any underwriters, any underwriting discounts or commissions, or any public offering. We believe the offers, sales, and issuances of the above securities were exempt from registration under the Securities Act by virtue of Section 4(a)(2), formerly 4(2), of the Securities Act, because the issuance of securities to the recipients did not involve a public offering. The recipients of the securities in each of these transactions represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were placed upon the stock certificates issued in these transactions. All recipients had adequate access, through their relationships with us or otherwise, to information about us. The issuances of these securities were made without any general solicitation or advertising.

Issuer Purchases of Equity Securities

None

Item 6. EXHIBITS

The documents listed in the Exhibit Index of this Quarterly Report on Form 10-Q are incorporated by reference or are filed with this Quarterly Report on Form 10-Q, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

TWITTER, INC.

Date: August 1, 2016 By: /s/ Jack Dorsey
Jack Dorsey
Chief Executive Officer
(Principal Executive Officer)

Date: August 1, 2016 By: /s/ Anthony Noto
Anthony Noto
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

| Exhibit Number | Exhibit Description | Incorporated by Reference | | | |
|-------------------|---|---------------------------|----------|---------|-------------|
| | | Form | File No. | Exhibit | Filing Date |
| 31.1 | Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | |
| 31.2 | Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | |
| 32.1† | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | | | | |
| 101.INS | XBRL Instance Document. | | | | |
| 101.SCH | XBRL Taxonomy Schema Linkbase Document. | | | | |
| 101.CAL | XBRL Taxonomy Calculation Linkbase Document. | | | | |
| 101.DEF | XBRL Taxonomy Definition Linkbase Document. | | | | |
| 101.LAB | XBRL Taxonomy Labels Linkbase Document. | | | | |
| 101.PRE | XBRL Taxonomy Presentation Linkbase Document. | | | | |

†The certifications attached as Exhibit 32.1 that accompany this Quarterly Report on Form 10-Q, are deemed furnished and not filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Twitter, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.