

TWITTER, INC.
Form 10-K
February 29, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015

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 (I.R.S. Employer

of incorporation or organization) Identification No.)

1355 Market Street, Suite 900

San Francisco, California 94103

(Address of principal executive offices and Zip Code)

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(415) 222-9670

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, Par Value \$0.000005 Per Share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☒ NO ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES ☐ NO ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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. (Check one):

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 ☒

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The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the closing price of a share of the registrant's common stock on June 30, 2015 as reported by the New York Stock Exchange on such date was approximately \$21,559,514,818. Shares of the registrant's common stock held by each executive officer, director and holder of 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This calculation does not reflect a determination that certain persons are affiliates of the registrant for any other purpose.

The number of shares of the registrant's common stock outstanding as of February 17, 2016 was 697,726,321.

Portions of the registrant's Definitive Proxy Statement relating to the Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. Such Definitive Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the end of the registrant's fiscal year ended December 31, 2015.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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 Annual Report on Form 10-K include, but are not limited to, statements about:

- our ability to attract and retain users and increase the level of engagement of our users;
- our ability to develop or acquire new products, product features and services, improve our existing products and services and increase the value of our products and services;
- our business strategies, plans and priorities, including our plans for growth and refinement of our core service;
- our ability to attract advertisers to our platforms, products and services and increase the amount that advertisers spend with us;
- our expectations regarding our user growth rate and the continued usage of our mobile applications;
- our ability to increase our revenue and our revenue growth rate;
 - our ability to improve user monetization, including of our logged out and syndicated audiences;
- our future financial performance, including trends in cost per ad engagement, revenue, cost of revenue, operating expenses and income taxes;
- our expectations regarding outstanding litigation;
- the effects of seasonal trends on our results of operations;
- the sufficiency of our cash and cash equivalents and cash generated from operations to meet our working capital and capital expenditure requirements;
- our ability to timely and effectively scale and adapt our existing technology and network infrastructure;
- our ability to successfully acquire and integrate companies and assets; and
- our ability to successfully enter new markets and manage our international expansion, including our ability to operate in those countries.

We caution you that the foregoing list may not contain all of the forward-looking statements made in this Annual Report on Form 10-K.

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Annual Report on Form 10-K 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 Annual Report on Form 10-K. 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 Annual Report on Form 10-K. 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 Annual Report on Form 10-K 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 Annual Report on Form 10-K to reflect events or circumstances after the date of this Annual Report on Form 10-K 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 Annual Report on Form 10-K 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, 2014. 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 Annual Report on Form 10-K. 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 action involved, and this activity can cause our system to count the users associated with such applications as active users on the day or days such contact occurs. In the three months ended December 31, 2014, approximately 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 Annual Report on Form 10-K may be affected as a result of this activity.

In addition, our data regarding user geographic location for purposes of reporting the geographic location of our MAUs is based on the IP address or phone number associated with the account when a user initially registered the account on Twitter. The IP address or phone number may not always accurately reflect a user’s actual location at the time such user engaged with our platform.

We regularly review and may adjust our processes for calculating our internal metrics to improve their accuracy. Our measures of user growth and user engagement may differ from estimates published by third parties or from similarly-titled metrics of our competitors due to differences in methodology. 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

Item 1. BUSINESS

Overview

Twitter gives everyone the power to create and share ideas and information instantly without barriers. Our service is live—live commentary, live connections, live conversations. Whether it is breaking news, entertainment, sports, or everyday topics, hearing about and watching a live event unfold is the fastest way to understand the power of Twitter. Twitter has always been considered a "second screen" for what is happening in the world and we believe we can become the first screen for everything that is happening now. And by doing so, we believe we can build the planet's largest daily connected audience.

Our current strategy for 2016 consists of the following objectives:

- Our Users. We are committed to refining our core service to better enable people to more easily create, share and consume content that is important to them. As part of that strategy, we will be focusing on live streaming video, which we believe is a strong complement to the live nature of Twitter. We will also be working toward giving our creators and influencers better tools to build and connect with their fans and audience through Twitter. Finally, we intend to invest more resources in making our platform safer by implementing technology to better detect the use of repeat abusive accounts, making it simpler for our users to report multiple abusive Tweets or accounts, and giving people simpler tools to curate and control their experience on Twitter.
- Our Advertisers. Our three main initiatives to improve our advertisers' ability to connect with their customers are: (i) building a rich canvas for marketers by incorporating additional features such as video into our Promoted Products, (ii) increasing advertisers' return on investment, or ROI, with improved measurement, bidding and relevance capabilities and (iii) increasing advertisers' scale and reach by leveraging Twitter's unique global audience.
- Our Developers. We are committed to providing a platform for developers to build, grow, and generate revenue with their sites and apps. In turn, we believe that these sites and apps provide us with strategic value by enabling us to demonstrate the importance of Tweets and extend their reach beyond Twitter.

Products and Services for Users

Twitter. Twitter is a global platform for public self-expression and conversation in real time. By developing a way for people to consume, create, distribute and discover content, Twitter has democratized content creation and distribution. The audience for Twitter is not limited to our logged-in users on the Twitter platform, but rather extends to a larger global audience.

The public nature of the Twitter platform allows us and others to extend the reach of Twitter content beyond our properties. Media outlets and our platform partners distribute Tweets beyond our properties to complement their content by making it more timely, relevant and comprehensive. These outlets and partners also add value to our user experience by contributing content to our platform. Many of the world's most trusted media outlets, including the BBC, CNN and Times of India, regularly use Twitter as a platform for content distribution.

Periscope and Vine. Our mobile application, Periscope, lets anyone broadcast and watch video live with others. We recently added the ability to broadcast from a GoPro camera, and to watch any broadcast live from a Tweet. Pairing Periscope with Twitter gives broadcasters greater distribution (anywhere a Tweet can be displayed, a Periscope can

too) and the ability to integrate into our revenue products. Vine is a mobile application that enables users to create and distribute short looping videos of up to six seconds in length. We do not currently monetize videos on Periscope or Vine, other than to the extent they can be integrated into our revenue products.

Products and Services for Advertisers

Our Promoted Products enable our advertisers to promote their brands, products and services, amplify their visibility and reach, and extend the conversation around their advertising campaigns. We enable our advertisers to target an audience based on a variety of factors, including a user's Interest Graph. The Interest Graph maps, among other things, interests based on users followed and actions taken on our platform, such as Tweets created and engagement with Tweets. We believe a user's Interest Graph produces a clear and real-time signal of a user's interests, greatly enhancing the relevance of the ads we can display for users and enhancing our targeting capabilities for advertisers. Our Promoted Products are incorporated into our platform as native advertising and are designed to be as compelling and useful to our users as organic content on our platform.

Currently, our Promoted Products (all of which are labeled "promoted" within Twitter) consist of:

- Promoted Tweets. Promoted Tweets appear within a user's timeline or search results just like an ordinary Tweet regardless of device. Using our proprietary algorithm and understanding of each user's Interest Graph, we can deliver Promoted Tweets that are intended to be relevant to a particular user. Our goal is to enable advertisers to create and optimize successful marketing campaigns — and pay only for the user actions that are aligned with their marketing objectives. As a result, we have added product features to Promoted Tweets campaigns based on advertiser objectives, which may include Tweet engagements (e.g., retweets, replies and likes), app installs or engagements, website clicks or conversions, or video views.
- Promoted Accounts. Promoted Accounts appear in the same format and place as accounts suggested by our Who to Follow recommendation engine, or in some cases, in Tweets in a user's timeline. Promoted Accounts provide a way for our advertisers to grow a community of users who are interested in their business, products or services.
- Promoted Trends. Promoted Trends appear at the top of the list of trending topics for an entire day in a particular country or on a global basis. When a user clicks on a Promoted Trend, search results for that trend are shown in a timeline and a Promoted Tweet created by our advertisers is displayed to the user at the top of those search results. We feature one Promoted Trend per day per geography.

Our technology platform and information database enable us to provide targeting capabilities based on audience attributes like geography, interests, keyword, television conversation, event and devices that make it possible for advertisers to promote their brands, products and services, amplify their visibility and reach, and complement and extend the conversation around their advertising campaigns.

Our platform also allows customers to advertise across the mobile ecosystem, both on Twitter's owned and operated properties as well as off Twitter on third party publishers' websites, applications and other offerings, across the full user lifecycle — from acquiring new users to engaging existing users. We enable advertisers to extend their reach beyond Twitter through:

- MoPub, our mobile-focused advertising exchange, which combines ad serving, ad network mediation and a real-time bidding exchange into one comprehensive monetization platform.
- Twitter Audience Platform, an advertising offering that enables advertisers to extend their advertising campaigns with Twitter Promoted Products to audiences off Twitter while retaining access to Twitter's measurement, targeting and creative tools.
- Performance marketing offering built upon TellApart technology, which provides retailers and e-commerce advertisers unique retargeting capabilities across desktop and mobile web.

Products for Developers

We provide a set of tools, public APIs and embeddable widgets that developers can use to contribute their content to our platform, syndicate and distribute Twitter content across their properties and enhance their websites and applications with Twitter content. Websites integrating with Twitter add value to our user experience. Indeed many

applications have been registered by developers to enable them to integrate with our platform, and leverage Twitter content to enhance and extend their applications in new and creative ways. The goal of our platform product development is to make it easy for developers to integrate seamlessly with Twitter.

Our Fabric platform offers lightweight modular software development kits that help developers build more stable applications, gives them mobile analytics, the ability to generate revenue through Twitter's mobile-focused advertising exchange, MoPub, and allows them to tap into Twitter's sign-in systems for simpler identity verification. Fabric also provides a simple way for developers to incorporate real-time Twitter content for greater syndication.

Products for Data Partners

We offer subscription access to our public data feed for partners who wish to access data beyond our public API, which offers a limited amount of our public data for free. Our "Gnip" branded products and services offer more sophisticated data sets and better data enrichments to allow developers and businesses to utilize our public content to derive business insights and build products using the unique content that is shared on Twitter.

Competition

Our business is characterized by rapid technological change, frequent product innovation and continuously evolving user, advertiser, platform partner and developer preferences and expectations. We face significant competition in every aspect of our business, including from companies that provide tools to facilitate communications and the sharing of information, companies that enable marketers to display advertising, other online ad networks, exchanges and platforms, and companies that provide development platforms for application developers. We compete to attract, engage, and retain people who use our products, to attract and retain marketers, and to attract and retain developers to build compelling mobile and web applications that integrate with our products. We also compete to attract and retain employees, especially software engineers, designers, and product managers.

We compete with the following companies:

- Companies that offer products that enable everyone to create and share ideas and other information. These offerings include, for example, Facebook and Google, as well as largely regional social media and messaging companies that have strong positions in particular countries.
- Companies that develop applications, particularly mobile applications, that create, syndicate and distribute content across internet properties.
 - Traditional, online, and mobile businesses that enable marketers to reach their audiences and/or develop tools and systems for managing and optimizing advertising campaigns.

As we introduce new products, as our existing products evolve, or as other companies introduce new products and services, we may become subject to additional competition.

We believe that we compete favorably on the factors described above. However, our industry is evolving rapidly and is becoming increasingly competitive. See the sections titled "Risk Factors—If we are unable to compete effectively for users and advertiser spend, our business and operating results could be harmed" and "Risk Factors—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."

Technology, Research and Development

Twitter is composed of a set of core, scalable and distributed services that are built from proprietary and open source technologies. These systems are capable of delivering billions of short messages to hundreds of millions of people a day in an efficient and reliable way. We continue to invest in our existing products and services as well as develop new products and services through research and product development.

Sales and Marketing

We have a global sales force and sales support staff that is focused on attracting and retaining advertisers. Our sales force and sales support staff assists advertisers throughout the advertising campaign cycle, from pre-purchase decision making to real-time optimizations as they utilize our campaign management tools, and to post-campaign analytics reports to assess the effectiveness of their advertising campaigns. Our advertisers also use our self-serve advertising platform to launch and manage their advertising campaigns.

Since our inception, our user base has grown primarily by word-of-mouth. Historically, we have built our brand through these efforts and increased usage of Twitter worldwide with relatively minimal marketing costs. However, we began to spend more on sales and marketing in 2015 than we have had historically, and expect our sales and marketing expense to continue to increase in absolute dollars in 2016.

Intellectual Property

We seek to protect our intellectual property rights by relying on federal, state and common law rights in the United States and other countries, as well as contractual restrictions. We generally enter into confidentiality and invention assignment agreements with our employees and contractors, and confidentiality agreements with other third parties, in order to limit access to, and disclosure and use of, our confidential information and proprietary technology. In addition to these contractual arrangements, we also rely on a combination of trademarks, trade dress, domain names, copyrights, trade secrets and patents to help protect our brand and our other intellectual property.

As of December 31, 2015, we had 990 issued patents in the United States and foreign countries relating to message distribution, graphical user interfaces, security and related technologies. Our issued United States patents are expected to expire between 2016 and 2033.

We may be unable to obtain patent or trademark protection for our technologies and brands, and our existing patents and trademarks, and any patents or trademarks 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 and trademarks may be contested, circumvented or found unenforceable or invalid, and we may not be able to prevent third parties from infringing, diluting or otherwise violating them.

In May 2013, we implemented our Innovator's Patent Agreement, or IPA, which we enter into with our employees and consultants, including our founders. We implemented the IPA because we were concerned about the recent proliferation of offensive patent lawsuits, including lawsuits by "non-practicing entities." We are also encouraging other companies to implement the IPA in an effort to reduce the number of patents with offensive rights that may be transferred to third parties, including non-practicing entities. We believe that a reduction in the number of patents with transferrable offensive rights may reduce the number of offensive lawsuits that may be filed, particularly by non-practicing entities.

The IPA limits our ability to prevent infringement of our patents. See the section titled "Risk Factors—Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our products, services and brand" for a further discussion of the IPA.

Companies in the Internet, technology and media industries own large numbers of patents, copyrights, trademarks and trade secrets, and frequently enter into litigation based on allegations of infringement, misappropriation, or other violations of intellectual property or other rights. In addition, various "non-practicing entities" that own patents and other intellectual property rights often attempt to aggressively assert their rights in order to extract value from technology companies. We are presently involved in a number of intellectual property lawsuits, and from time to time we face, and we expect to face in the future, allegations that we have infringed or otherwise violated the patents, copyrights, trademarks, trade secrets, and other intellectual property rights of third parties, including our competitors and non-practicing entities. As we face increasing competition and as our business grows, we will likely face more intellectual property-related claims and litigation matters. For additional information, see the sections titled "Risk Factors—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" and "Legal Proceedings."

Government Regulation

We are subject to a number of U.S. federal and state and foreign laws and regulations that involve matters central to our business. These laws and regulations may involve privacy, rights of publicity, data protection, content regulation, intellectual property, competition, protection of minors, consumer protection, taxation or other subjects. Many of these laws and regulations are still evolving and being tested in courts and could be interpreted in ways that could harm our business. In addition, the application and interpretation of these laws and regulations often are uncertain, particularly in the new and rapidly evolving industry in which we operate.

We are also subject to federal, state and foreign laws regarding privacy and the protection of user data. Foreign data protection, privacy, consumer protection, content regulation and other laws and regulations are often more restrictive than those in the United States. There are also a number of legislative proposals pending before the U.S. Congress, various state legislative bodies and foreign governments concerning data protection that could affect us. For example, regulation relating to the 1995 European Union Data Protection Directive is currently being considered by European legislative bodies that may include more stringent operational requirements for entities processing personal information and significant penalties for non-compliance.

In March 2011, to resolve an investigation into various incidents, we entered into a settlement agreement with the Federal Trade Commission, or FTC, that, among other things, requires 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 FTC investigation was the result of two separate incidents in which unauthorized intruders obtained administrative passwords of certain Twitter employees. In one of the incidents, the intruder accessed the employee's administrative capabilities to fraudulently reset various user passwords and post unauthorized Tweets. 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. 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 results of operations.

Twitter users may be restricted from accessing Twitter from certain countries, and other countries have intermittently restricted access to Twitter. For example, Twitter is not directly accessible in China and has been blocked in the past in Turkey. It is possible that other governments may seek to restrict access to or block our website or mobile applications, censor content available through our products or impose other restrictions that may affect the accessibility or usability of Twitter for an extended period of time or indefinitely. For instance, some countries have enacted laws that allow websites to be blocked for hosting certain types of content.

For additional information, see the section titled "Risk Factors—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."

Information about Segment and Geographic Revenue

Information about segment and geographic revenue is set forth in Note 17 of the Notes to Consolidated Financial Statements under Item 8 of this Annual Report on Form 10-K.

Employees

As of December 31, 2015, we had 3,898 full-time employees.

Corporate Information

We were incorporated in Delaware in April 2007. Our principal executive offices are located at 1355 Market Street, Suite 900, San Francisco, California 94103, and our telephone number is (415) 222-9670. We completed our initial public offering in November 2013 and our common stock is listed on the New York Stock Exchange under the symbol "TWTR." Unless the context requires otherwise, the words "Twitter," "we," "Company," "us" and "our" refer to Twitter, Inc. and our wholly owned subsidiaries.

Available Information

Our website is located at www.twitter.com, and our investor relations website is located at <http://investor.twitterinc.com/>. Copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, are available, free of charge, on our investor relations website as soon as reasonably practicable after we file such material electronically with or furnish it to the Securities and Exchange Commission, or the SEC. The SEC also maintains a website that contains our SEC filings. The address of the site is www.sec.gov. Further, a copy of this Annual Report on Form 10-K is located at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

We broadcast via Periscope and/or webcast our earnings calls and certain events we participate in or host with members of the investment community on our investor relations website. Additionally, we provide notifications of news or announcements regarding our financial performance, including SEC filings, investor events, press and earnings releases, and blogs as part of our investor relations website. We have used, and intends to continue to use, our investor relations website, as well as certain Twitter accounts (@jack, @twitter and @twitterIR), as means of disclosing material non-public information and for complying with its disclosure obligations under Regulation FD. Further corporate governance information, including our certificate of incorporation, bylaws, corporate governance guidelines, board committee charters, and code of business conduct and ethics, is also available on our investor relations website under the heading "Corporate governance." The contents of our websites are not intended to be incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

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 Annual Report on Form 10-K, 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 320 million average MAUs in the three months ended December 31, 2015, representing a 9% increase from 292 million average MAUs in the three months ended December 31, 2014, and flat versus the three months ended September 30, 2015. In the three months ended December 31, 2015, MAUs, excluding SMS Fast Followers, grew 6% year-over-year to 305 million, but were down on a sequential basis for the three months ended September 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 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, Brazil, France, India, Japan 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 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;
- 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% of our revenue from advertising in each of the fiscal years ended December 31, 2014 and 2015. 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 or 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;
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- 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 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;

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- 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 are no longer viewable within Tweets and users are now 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;
- 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 80% of our average MAUs in the three months ended December 31, 2015, but our international revenue, as determined based on the billing location of our advertisers, was only 35% of our consolidated revenue in the three months ended December 31, 2015. 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 December 31, 2015, we had an accumulated deficit of \$2.09 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, and #Music, a mobile application that helped users discover new music and artists based on Twitter data profiles which we discontinued in 2014. 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.

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 favoriting 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.

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 December 31, 2015, we had approximately 3,900 full-time employees, an increase of approximately 260 full-time employees since December 31, 2014. 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. 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 September 2015, we experienced a brief service outage during which Twitter.com was 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, we have limited operating history outside the United States, and 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 September 2015, we experienced a brief service outage during which Twitter.com was inaccessible as a result, in part, of a software misconfiguration in one of our infrastructure components. Additionally, 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 is currently being considered by European legislative bodies that may include more stringent operational requirements for entities processing personal information and significant penalties for non-compliance. Additionally, in October 2015, recently 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.

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.

Our commerce efforts depend on third parties and are subject to evolving laws and regulations.

Since 2015, we have built commerce solutions that connect customers and retail partners. This includes enabling users to make purchases within a Tweet, load offers directly to a credit or debit card, and browse or shop collections of products without leaving Twitter.

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. If these third parties do not perform adequately or if our relationships with these third parties terminate, our retail partners' ability to conduct business on Twitter could be adversely affected and our business and operating results could be adversely affected.

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 are 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 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 December 31, 2015, we had 990 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.

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. 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 Annual Report on Form 10-K 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 rely on data from Google Analytics, which measures logged-out 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.

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 December 31, 2015, 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 three months ended December 31, 2015, over 85% 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;

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- 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 December 31, 2015, 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 December 31, 2015, we had recorded a total of \$1.26 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 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;

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- 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 \$21.01, through December 31, 2015. In addition to the factors discussed in this “Risk Factors” section and elsewhere in this Annual Report on Form 10-K, 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;

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- 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 1B. UNRESOLVED STAFF COMMENTS

None.

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Item 2. PROPERTIES

Facilities

As of December 31, 2015, we leased office facilities around the world totaling approximately 1,732,000 square feet, including 839,000 square feet for our corporate headquarters in San Francisco, California. We also lease data center facilities in the United States pursuant to various lease agreements and co-location arrangements with data center operators. We believe our facilities are sufficient for our current needs.

Item 3. LEGAL PROCEEDINGS

Legal Proceedings

We are currently involved in, and may in the future be involved in, legal proceedings, claims and government investigations in the ordinary course of business. We are involved in litigation, and may in the future be involved in litigation, with third parties asserting, among other things, infringement of their intellectual property rights. In addition, the nature of our business exposes us to claims related to defamation, rights of publicity and privacy, and personal injury torts resulting from information that is published or made available on our platform. This 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. Although the results of the legal proceedings, claims and government investigations 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 or operating results.

Future litigation may be necessary, among other things, to defend ourselves, our platform partners and our users by determining the scope, enforceability, and validity of third-party proprietary rights or to establish our proprietary rights. The results of any current or future litigation cannot be predicted with certainty, and 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 4. MINE SAFETY DISCLOSURE

Not applicable.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information for Common Stock

Our common stock has been listed on the New York Stock Exchange under the symbol "TWTR" since November 7, 2013. Prior to that date, there was no public trading market for our common stock. The following table sets forth the high and low sales price per share of our common stock as reported on the New York Stock Exchange for the periods indicated:

	2015		2014	
	High	Low	High	Low
First Quarter	\$51.87	\$35.54	\$70.43	\$43.31
Second Quarter	53.49	33.51	47.59	29.51
Third Quarter	38.82	21.01	53.64	35.95
Fourth Quarter	31.87	21.99	55.99	34.62

Holders of Record

As of February 17, 2016, there were 962 holders of record of our common stock. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

Dividend Policy

We have never declared or paid any cash dividends on our capital stock. We intend to retain any future earnings and do not expect to pay any dividends in the foreseeable future. Any future determination to declare cash dividends will be made at the discretion of our board of directors, subject to applicable laws, and will depend on a number of factors, including our financial condition, results of operations, capital requirements, contractual restrictions, general business conditions and other factors that our board of directors may deem relevant. In addition, the credit facility contains restrictions on payments including cash payments of dividends.

Unregistered Sales of Equity Securities

Shares Issued in Connection with Acquisitions

From January 1, 2015 through December 31, 2015, we issued an aggregate of 5,703,385 shares of our common stock in connection with our acquisitions of certain companies or their assets.

None of the foregoing transactions involved any underwriters, 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(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, to information about us. The sales of these securities were made without any general solicitation or advertising.

Performance Graph

This performance graph shall not be deemed “soliciting material” or to be “filed” with the SEC for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of Twitter, Inc. under the Securities Act of 1933, as amended, or the Exchange Act.

The following graph compares the cumulative total return to stockholders on our common stock relative to the cumulative total returns of the Standard & Poor's 500 Index, or S&P 500, and the Dow Jones Internet Composite Index, or DJ Internet Composite. An investment of \$100 (with reinvestment of all dividends) is assumed to have been made in our common stock and in each index on November 7, 2013, the date our common stock began trading on the NYSE, and its relative performance is tracked through December 31, 2015. The returns shown are based on historical results and are not intended to suggest future performance.

Item 6. SELECTED FINANCIAL DATA

The following selected historical consolidated financial data should be read in conjunction with Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", our consolidated financial statements and the related notes included in Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

The consolidated statements of operations data for the years ended December 31, 2015, 2014 and 2013 and the consolidated balance sheet data as of December 31, 2015 and 2014 are derived from our audited consolidated financial statements included in Part II, Item 8, “Financial Statements and Supplementary Data” in this Annual Report on Form 10 K. The consolidated statements of operations data for the year ended December 31, 2012 and 2011 and the consolidated balance sheet data as of December 31, 2013, 2012 and 2011 are derived from our audited consolidated financial statements not included in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of the results that may be expected in the future.

	Year Ended December 31,				
	2015	2014	2013	2012	2011
	(In thousands, except per share data)				
Consolidated Statement of Operations Data:					
Revenue	\$2,218,032	\$1,403,002	\$664,890	\$316,933	\$106,313
Costs and expenses ⁽¹⁾					
Cost of revenue	729,256	446,309	266,718	128,768	61,803
Research and development	806,648	691,543	593,992	119,004	80,176
Sales and marketing	871,491	614,110	316,216	86,551	25,988
General and administrative	260,673	189,906	123,795	59,693	65,757
Total costs and expenses	2,668,068	1,941,868	1,300,721	394,016	233,724
Loss from operations	(450,036)	(538,866)	(635,831)	(77,083)	(127,411)
Interest expense	(98,178)	(35,918)	(7,576)	(3,255)	(1,271)
Other income (expense), net	14,909	(3,567)	(3,739)	1,168	(1,064)
Loss before income taxes	(533,305)	(578,351)	(647,146)	(79,170)	(129,746)
Provision (benefit) for income taxes	(12,274)	(531)	(1,823)	229	(1,444)
Net loss	\$(521,031)	\$(577,820)	\$(645,323)	\$(79,399)	\$(128,302)
Deemed dividend to investors in relation to the tender offer	—	—	—	—	35,816
Net loss attributable to common stockholders	\$(521,031)	\$(577,820)	\$(645,323)	\$(79,399)	\$(164,118)
Net loss per share attributable to common stockholders:					
Basic and diluted	\$(0.79)	\$(0.96)	\$(3.41)	\$(0.68)	\$(1.60)
Weighted-average shares used to compute net loss per share attributable to common stockholders:					
Basic and diluted	662,424	604,990	189,510	117,401	102,544
Other Financial Information: ⁽²⁾					
Adjusted EBITDA	\$557,807	\$300,896	\$75,430	\$21,164	\$(42,835)
Non-GAAP net income (loss)	\$276,629	\$101,071	\$(34,330)	\$(35,191)	\$(65,533)

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

	Year Ended December 31,				
	2015	2014	2013	2012	2011
	(In thousands)				
Cost of revenue	\$40,705	\$50,536	\$50,942	\$800	\$1,820
Research and development	401,537	360,726	379,913	12,622	33,559
Sales and marketing	156,904	157,263	114,440	1,346	1,553
General and administrative	82,972	63,072	55,072	10,973	23,452
Total stock-based compensation	\$682,118	\$631,597	\$600,367	\$25,741	\$60,384

(2) See the section titled “Non-GAAP Financial Measures” below for additional information and a reconciliation of net loss to Adjusted EBITDA and net loss to non-GAAP net income (loss).

	As of December 31,				
	2015	2014	2013	2012	2011
	(In thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$911,471	\$1,510,724	\$841,010	\$203,328	\$218,996
Short-term investments	2,583,877	2,111,154	1,393,044	221,528	330,543
Working capital	3,875,753	3,862,059	2,349,249	444,587	548,324
Property and equipment, net	735,299	557,019	332,662	185,574	61,983
Total assets	6,442,439	5,583,082	3,366,240	831,568	720,675
Convertible notes	1,455,095	1,376,020	—	—	—
Total liabilities	2,074,392	1,956,679	416,234	207,204	87,391
Redeemable convertible preferred stock	—	—	—	37,106	49
Convertible preferred stock	—	—	—	835,430	835,073
Total stockholders' equity (deficit)	4,368,047	3,626,403	2,950,006	(248,172)	(201,838)

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 (loss), revenue excluding foreign exchange effect and advertising revenue excluding foreign exchange effect. 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.

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

	Year Ended December 31,				
	2015	2014	2013	2012	2011
	(In thousands)				
Reconciliation of Net Loss to Adjusted EBITDA					
Net loss	\$(521,031)	\$(577,820)	\$(645,323)	\$(79,399)	\$(128,302)
Stock-based compensation expense	682,118	631,597	600,367	25,741	60,384
Depreciation and amortization expense	312,823	208,165	110,894	72,506	24,192
Interest and other expense, net	83,269	39,485	11,315	2,087	2,335
Provision (benefit) for income taxes	(12,274)	(531)	(1,823)	229	(1,444)
Restructuring charges	12,902	—	—	—	—
Adjusted EBITDA	\$557,807	\$300,896	\$75,430	\$21,164	\$(42,835)

Non-GAAP Net Income (Loss)

We define non-GAAP net income (loss) 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.

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

	Year Ended December 31,				
	2015	2014	2013	2012	2011
	(In thousands)				
Reconciliation of Net Loss to Non-GAAP Net Income (Loss)					
Net loss	\$(521,031)	\$(577,820)	\$(645,323)	\$(79,399)	\$(128,302)
Stock-based compensation expense	682,118	631,597	600,367	25,741	60,384
Amortization of acquired intangible assets	54,659	36,563	16,530	18,687	4,697
Non-cash interest expense related to convertible notes	69,185	18,823	—	—	—
Non-cash expense related to acquisition	926	—	—	—	—
Income tax effects related to acquisitions	(22,130)	(8,092)	(5,904)	(220)	(2,312)
Restructuring charges	12,902	—	—	—	—
Non-GAAP net income (loss)	\$276,629	\$101,071	\$(34,330)	\$(35,191)	\$(65,533)

We use the non-GAAP financial measures of Adjusted EBITDA and non-GAAP net income (loss) in evaluating our operating results and for financial and operational decision-making purposes. We believe that Adjusted EBITDA and non-GAAP net income (loss) 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 (loss). We believe that Adjusted EBITDA and non-GAAP net income (loss) provide useful information about our operating results, enhance the overall understanding of our past performance and future prospects and allow for greater transparency with respect to key metrics used by our management in its financial and operational decision-making.

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

- These non-GAAP financial measures exclude restructuring charges and 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.

We have attempted to compensate for these limitations by providing the nearest GAAP equivalents of these non-GAAP financial measures and describing these GAAP equivalents under the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations.”

Item 7. 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 8 "Financial Statements and Supplemental Data" in this Annual Report on Form 10-K. 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 Annual Report on Form 10-K.

FY 2015 Overview and Highlights

Total revenue was \$2.22 billion, an increase of 58% compared to 2014.

- Advertising revenue totaled \$1.99 billion, an increase of 59% compared to 2014.
- Excluding the impact of year-over-year changes in foreign exchange rates, advertising revenue would have increased 65%
- Advertising revenue generated from the sale of our advertising services on Twitter in 2015 was \$1.80 billion as compared to \$1.24 billion in 2014. Advertising revenue generated from the sale of our advertising services off Twitter on third party publishers' websites, applications and other offerings in 2015 was \$194.2 million as compared to \$11.4 million in 2014.
- Mobile advertising revenue was over 85% of total advertising revenue
- Data licensing and other revenue totaled \$224.0 million, an increase of 52% compared to 2014.
- U.S. revenue totaled \$1.44 billion, an increase of 53% compared to 2014.
- International revenue totaled \$774.8 million, an increase of 69% compared to 2014.

Net loss was \$521.0 million and adjusted EBITDA was \$557.8 million, resulting in an adjusted EBITDA margin of 25%, an increase of 21% compared to 2014.

Cash, cash equivalents and short-term investments in marketable securities totaled \$3.50 billion as of December 31, 2015.

Total average monthly active users (MAUs) were 320 million for the three months ended December 31, 2015, up 9% compared to the three months ended December 31, 2014. Mobile MAUs represented approximately 80% of total MAUs.

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 December 31, 2015, we had 320 million average MAUs, which represents an increase of 9% from the three months ended December 31, 2014. The growth in average MAUs was driven primarily by growth initiatives. In the three months ended December 31, 2015, we had 65 million average MAUs in the United States and 254 million average MAUs in the rest of the world, which represent increases of 3% and 11%, respectively, from the three months ended December 31, 2014. For additional information on how we calculate MAUs and factors that can affect this metric, see the section titled “Note Regarding Key Metrics.”

In order to simplify our disclosures, we will no longer include SMS Fast Followers in our reported total MAUs going forward.

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, likes or replying to a Promoted Tweet, playing an embedded video, downloading or engaging with a promoted mobile application, clicking on a website link, signing up for marketing emails from advertisers, following the account that tweets a Promoted Tweet, or completing a transaction on an external website. We believe changes in ad engagements are one way to measure user engagement with our advertising products. We believe changes in cost per ad engagement are one way to measure demand.

In the three months ended December 31, 2015, ad engagements increased 153% from the three months ended December 31, 2014. The increase was driven by growth in video ad engagements, growth in ad engagements on third-party publishers' websites, applications and other offerings, and stronger advertiser demand for our advertising products in the fourth quarter of 2015 compared to the fourth quarter of 2014. In the three months ended December 31, 2015, average cost per ad engagement decreased 41% from the three months ended December 31, 2014. The decrease in cost per ad engagement was primarily driven by a mix shift to auto-play video, partially offset by an increase in same-format prices for the majority of our advertising products.

Factors Affecting Our Future Performance

User Growth and Monetization. User growth trends reflected in the number of MAUs and monetization trends reflected in advertising engagements are key factors that affect our revenue. As our user base and the level of engagement of our users grow, we believe the potential to increase our revenue grows.

User Growth. We have generally experienced significant growth in our number of users over the last several years. In general, a higher proportion of Internet users in the United States use Twitter than Internet users in other countries. Accordingly, in the future we expect our user growth rate in certain international markets, such as Argentina, Brazil, France, India, Japan and the Philippines, to continue to be higher than our user growth rate in the United States. However, we expect to face challenges in entering some markets, such as China, where access to Twitter is blocked, as well as certain other countries that have intermittently restricted access to Twitter. Restrictions or limitations on access to Twitter may adversely impact our ability to increase the size of our user base and generate additional revenue in certain markets.

We do not separately track whether an MAU has only used Twitter on a desktop or on a mobile device. However, in the three months ended December 31, 2015, approximately 80% of our average MAUs accessed Twitter from a mobile device, roughly stable from the three months ended December 31, 2014.

We may face challenges in increasing the size of our user base, including, among others, competition from alternative products and services, a decline in the number of influential users on Twitter or a perceived decline in the quality of content or user experience available on Twitter. We intend to drive growth in our user base by continuing to demonstrate the value and usefulness of our products and services to potential new users, by introducing new products, services and features and refining our core service. Our user growth rate has slowed over time, and we anticipate that it may continue to slow or decline. To the extent our logged-in user growth or user growth rate continues to slow or the absolute number of logged in users declines, our revenue growth will become increasingly dependent on our ability to increase levels of user engagement on Twitter and monetizing our total audience on logged-out usage and syndicated properties as well as increasing revenue growth from third party publishers' websites, applications and other offerings.

Monetization. There are many variables that impact the monetization of our platform, such as the number of MAUs, our users' level of engagement with our platform, ad load (which is a function of the amount of advertising we choose to display), our users' engagement with our Promoted Products, advertiser demand and cost per ad engagement. Generally, we design our algorithms for our pay-for-performance Promoted Products on Twitter to optimize the overall user experience and the value we deliver to advertisers. We have, and may in the future, increase ad load to the extent that we are able to continue to reach the right balance of advertiser value and the overall user experience. In order to improve monetization, we plan to increase the value of our advertising services by continuing to increase the size and engagement of our user base as well as improve our ability to target advertising to our users' interests and the ability of our advertisers to optimize their campaigns and measure the results of their campaigns.

Although the majority of the Promoted Products we sell to our advertisers are placed on Twitter, we have been growing our advertising revenue by selling to advertisers our advertising products that we place on third-party publishers' websites, applications or other offerings. For the latter category of advertising placements, we incur additional costs, particularly traffic acquisition costs, to fulfill our services to advertisers. This mix shift of additional advertising revenue being generated from such third-party placements may continue in the future.

In the three months ended December 31, 2015, over 85% of our advertising revenue was generated from mobile devices. We have experienced strong growth in advertising revenue from mobile devices because user engagement is significantly higher on mobile applications than on our desktop applications, and we expect this trend to continue. However, Promoted Accounts and Promoted Trends receive less prominence on our mobile applications than they do on our desktop applications, which means that fewer users see them displayed on our mobile applications, resulting in fewer ad engagements with Promoted Accounts and fewer impressions of Promoted Trends on mobile applications. Primarily as a result of Promoted Accounts and Promoted Trends receiving less prominence on mobile applications, we have generated higher monetization of our ad engagements on our desktop applications than on our mobile applications. Although our cost per ad engagement on our desktop applications is higher than our cost per ad engagement on our mobile applications, the substantial majority of our ad engagements and advertising revenue is generated from mobile applications.

We intend to continue to increase the monetization of our platform by improving the targeting capabilities of our advertising services to enhance the value of our Promoted Products for advertisers, expanding our sales efforts to reach advertisers in additional international markets, opening our platform to additional advertisers through our self-serve advertising platform and developing new ad formats for advertisers.

Effectiveness of Our Advertising Services. Advertisers can use Twitter to communicate directly with their followers for free, but many choose to purchase our advertising services to reach a broader audience and further promote their brands, products and services. We believe that increasing the effectiveness of our Promoted Products for advertisers will increase the amount that advertisers spend with us. We aim to increase the value of our Promoted Products by increasing the size and engagement of our user base, improving our ability to target advertising to our users' interests

and improving the ability of our advertisers to optimize their campaigns and measure the results of their campaigns. We may also develop new advertising products and services.

International Expansion. We intend to invest in our international operations in order to expand our user base and advertiser base and increase user engagement and monetization internationally. In the three months ended December 31, 2015, we had 254 million average MAUs internationally compared to 65 million average MAUs in the United States. In addition, our number of users is growing at a faster rate in many international markets, such as Argentina, Brazil, France, India, Japan and the Philippines. However, we derive the majority of our advertising revenue from advertisers in the United States. In order to increase our international advertising revenue, we plan to invest in our international operations. In the near term, we plan to increase the size of our sales and marketing support teams in international markets such as Brazil, Ireland, Japan, Middle East and UK.

We face challenges in increasing our advertising revenue internationally, including local competition, differences in advertiser demand, differences in the digital advertising market and conventions, and differences in the manner in which Twitter is accessed and used internationally. We face competition from well-established competitors in certain international markets. In addition, certain international markets are not as familiar with digital advertising in general, or with new forms of digital advertising, such as our Promoted Products. In these jurisdictions we are investing to educate advertisers about the benefits of our advertising services. However, we expect that it may require a significant investment of time and resources to educate advertisers in many international markets. We also face challenges in providing certain advertising products, features or analytics in certain international markets, such as the European Union, due to government regulation. In addition, in certain emerging markets, many users access Twitter through feature phones with limited functionality, rather than through smartphones, our website or desktop applications. This limits our ability to deliver certain features to these users and may limit the ability of advertisers to deliver compelling ads to users in these markets. We are investing to improve our applications for feature phones in order to improve our ability to monetize our products and services in international markets.

Competition. We face significant competition for users and advertisers. We compete against many companies to attract and engage users and for advertiser spend, including companies with greater financial resources and substantially larger user bases which offer a variety of Internet and mobile device-based products, services and content. In recent years there has been a significant number of acquisitions and consolidation activity by and among our actual and potential competitors. We must compete effectively for users and advertisers in order to grow our business and increase our revenue. We believe that our ability to compete effectively for users depends upon a number of factors, including the quality of our products and services; and our ability to compete effectively for advertisers depends upon a number of factors, including our ability to offer attractive advertising products with unique targeting capabilities and the size of our active user base. We intend to continue to invest in research and development to improve our products and services for users and advertisers and to grow our active user base in order to address the competitive challenges in our industry. As part of our strategy to improve our products and services, we may acquire other companies to add engineering talent or complementary products and technologies.

Investment in Infrastructure. We intend to increase the capacity and enhance the capability and reliability of our infrastructure. Our infrastructure is critical to providing users, platform partners, advertisers and data partners access to our platform, particularly during major planned and unplanned events, such as elections, sporting events or natural disasters, when activity on our platform increases dramatically. As our user base and the activity on our platform grow, we expect that investments and expenses associated with our infrastructure will continue to grow. These investments and expenses include the expansion of our data center operations and related operating costs, additional servers and networking equipment to increase the capacity of our infrastructure and increased bandwidth costs.

Products and Services Innovation. Our ability to increase the size and engagement of our user base, attract advertisers and increase our revenue will depend, in part, on our ability to improve existing products and services and to successfully develop or acquire new products and services. We plan to continue to make significant investments in research and development and, from time to time, we may acquire companies to enhance our products, services and technical capabilities.

Investment in Talent. We intend to invest in hiring and retaining talented employees to grow our business and increase our revenue. As of December 31, 2015, we had 3,898 full-time employees, an increase of over 260 full-time employees, or approximately 7%, from December 31, 2014. We expect to increase headcount for the foreseeable future as we continue to invest in our business. We have also made, and intend to continue to make, acquisitions that add engineers, designers, product managers and other personnel with specific technology expertise. In addition, we must retain our high-performing personnel in order to continue to develop, sell and market our products and services and manage our business.

Seasonality. Advertising spending is traditionally strongest in the fourth quarter of each year. Historically, this seasonality in advertising spending has affected our quarterly results, with higher sequential advertising revenue growth from the third quarter to the fourth quarter compared to sequential advertising revenue growth from the fourth quarter to the subsequent first quarter. For example, our advertising revenue increased 43%, 35% and 25% between the third and fourth quarters of 2013, 2014 and 2015, respectively, while advertising revenue for the first quarter of 2014 and 2015 increased 3% and decreased 10% compared to the fourth quarter of 2013 and 2014, respectively. The rapid growth in our business may have partially masked seasonality to date and the seasonal impacts may be more pronounced in the future.

Stock-Based Compensation Expense. We have historically utilized, and intend to continue to utilize, various forms of stock-based awards in order to hire and retain talented employees. During the twelve months ended December 31, 2015 and 2014, we recognized \$682.1 million and \$631.6 million of expense related to stock-based compensation, respectively. As of December 31, 2015, we had unrecognized stock-based compensation expense of approximately \$1.25 billion related to outstanding equity awards, after giving effect to estimated forfeitures, which we expect to recognize over a weighted-average period of approximately three years. The stock-based compensation expenses related to our outstanding equity awards have a significant impact on our ability to generate net income on a GAAP basis in future periods.

Results of Operations

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

	Year Ended December 31,		
	2015	2014	2013
	(in thousands)		
Revenue			
Advertising services	\$1,994,036	\$1,255,688	\$594,546
Data licensing and other	223,996	147,314	70,344
Total Revenue	2,218,032	1,403,002	664,890
Costs and expenses ⁽¹⁾			
Cost of revenue	729,256	446,309	266,718
Research and development	806,648	691,543	593,992
Sales and marketing	871,491	614,110	316,216
General and administrative	260,673	189,906	123,795
Total costs and expenses	2,668,068	1,941,868	1,300,721
Loss from operations	(450,036)	(538,866)	(635,831)
Interest expense	(98,178)	(35,918)	(7,576)
Other income (expense), net	14,909	(3,567)	(3,739)
Loss before income taxes	(533,305)	(578,351)	(647,146)
Benefit from income taxes	(12,274)	(531)	(1,823)
Net loss	\$(521,031)	\$(577,820)	\$(645,323)

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

	Year Ended December 31,				
	2015	2014	2013	2012	2011
	(In thousands)				
Cost of revenue	\$40,705	\$50,536	\$50,942	\$800	\$1,820
Research and development	401,537	360,726	379,913	12,622	33,559
Sales and marketing	156,904	157,263	114,440	1,346	1,553
General and administrative	82,972	63,072	55,072	10,973	23,452
Total stock-based compensation	\$682,118	\$631,597	\$600,367	\$25,741	\$60,384

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

	Year Ended December 31,		
	2015	2014	2013
Revenue			
Advertising services	90 %	90 %	89 %
Data licensing and other	10	10	11
Total Revenue	100	100	100
Costs and expenses			
Cost of revenue	33	32	40
Research and development	36	49	89
Sales and marketing	39	44	48
General and administrative	12	14	19
Total costs and expenses	120	138	196
Loss from operations	(20)	(38)	(96)
Interest expense	(4)	(3)	(1)
Other income (expense), net	1	(0)	(1)
Loss before income taxes	(24)	(41)	(97)
Benefit from income taxes	(1)	(0)	(0)
Net loss	(23)%	(41)%	(97)%

Years Ended December 31, 2015, 2014 and 2013

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. We recognize advertising revenue when a user engages with a Promoted Tweet.

Promoted Accounts. Promoted Accounts, which are labeled as “promoted,” appear in the same format and place as accounts suggested by our Who to Follow recommendation engine, or in some cases, in Tweets in a user’s timeline. 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. We recognize advertising revenue when a user follows a Promoted Account.

· 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. When a user clicks on a Promoted Trend, search results for that trend are shown in a timeline and a Promoted Tweet created by the advertiser is displayed to the user at the top of those search results. We sell our Promoted Trends on a fixed-fee-per-day basis. We feature one Promoted Trend per day per geography, and recognize advertising revenue from a Promoted Trend when it is displayed on our platform.

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.

	Year Ended December 31,			2014 to		2013 to	
	2015	2014	2013	2015		2014	
				%		%	
	(in thousands)			Change		Change	
Advertising services	\$1,994,036	\$1,255,688	\$594,546	59	%	111	%
Data licensing and other	223,996	147,314	70,344	52	%	109	%
Total Revenue	\$2,218,032	\$1,403,002	\$664,890	58	%	111	%

2015 Compared to 2014. Revenue in 2015 increased by \$815.0 million compared to 2014. On a constant currency basis, revenue in 2015, using the prior year's monthly exchange rates for our settlement currencies other than the U.S. dollar, would have increased by \$896.7 million or 64% compared to 2014.

In 2015, advertising revenue increased by 59% compared to 2014. On a constant currency basis, advertising revenue in 2015, using the prior year's monthly exchange rates for our settlement currencies other than the U.S. dollar, would have increased 65% compared to 2014. 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 2015 was \$1.80 billion as compared to \$1.24 billion in 2014. Advertising revenue generated from the sale of our advertising services on third party publishers' websites, applications and other offerings in 2015 was \$194.2 million as compared to \$11.4 million in 2014, which increase was driven, in part, by the acquisition of TellApart. The overall increase in advertising revenue was primarily attributable to a 107% increase in the number of ad engagements offset by a 23% decrease in average cost per ad engagement in 2015 compared to 2014. The increase in ad engagements was primarily the result of our move to auto-play video in late 2015, as well as growth in our advertising revenue generated from third party publishers' websites, applications and other offerings, 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 2015, data licensing and other revenue increased by 52% compared to 2014. 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 for a full year in 2015 as compared to the partial year in 2014.

2014 Compared to 2013. Revenue in 2014 increased by \$738.1 million compared to 2013.

In 2014, advertising revenue increased by 111% compared to 2013. The increase was primarily attributable to a 175% increase in the number of ad engagements in 2014 offset by a 23% decrease in average cost per ad engagement in 2014 compared to 2013. Advertising revenue also benefited from sales of our Promoted Products on our mobile applications as well as from an increase in international revenue.

In 2014, data licensing and other revenue increased by 109% compared to 2013. The majority of this increase was attributable to a full year of revenue generated from mobile advertising exchange services in 2014 as compared to the partial year of revenue generated in the prior year.

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 (“TAC”). Infrastructure costs which 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.

	Year Ended December 31,			2014 to	2013 to
	2015	2014	2013	2015	2014
				%	%
				Change	Change
	(in thousands)				
Cost of revenue	\$729,256	\$446,309	\$266,718	63	67
Cost of revenue as a percentage of revenue	33	% 32	% 40	%	%

2015 Compared to 2014. In 2015, cost of revenue, which included TAC of \$121.8 million, increased by \$282.9 million compared to 2014. The increase was primarily attributable to a \$113.7 million increase in TAC, a \$79.5 million increase in networking, hosting and data center costs related to our co-located facilities, a \$76.3 million increase in depreciation expense related to additional server and networking equipment and amortization of acquired intangible assets, and a \$24.1 million increase in other direct costs, offset by a \$10.7 million decrease in personnel-related costs, mainly driven by a decrease in average employee headcount and stock-based compensation expense.

2014 Compared to 2013. In 2014, cost of revenue increased by \$179.6 million compared to 2013. The increase was primarily attributable to a \$75.5 million increase in depreciation expense related to additional server and networking equipment and amortization of acquired intangible assets, a \$60.2 million increase in networking, hosting and data center costs related to our co-located facilities, a \$27.0 million increase in allocated facilities and other supporting overhead costs due to the continued expansion of our real estate footprint and increase in support functions, and a \$16.9 million increase in personnel-related costs, mainly driven by an increase in average employee headcount.

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 also expect that the amount of revenue generated from the sale of our advertising services on third party publishers’ websites, applications and other offerings will increase, which will also result in an increase in the amount of TAC that we incur. As a result, we expect that cost of revenue, in particular TAC, will increase 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.

	Year Ended December 31,			2014 to 2015	2013 to 2014
	2015	2014	2013	% Change	% Change
	(in thousands)				
Research and development	\$806,648	\$691,543	\$593,992	17	% 16
Research and development as a percentage of revenue	36	% 49	% 89	%	%

2015 Compared to 2014. In 2015, research and development expenses increased by \$115.1 million compared to 2014. The increase was primarily attributable to an \$87.0 million increase in personnel-related costs, mainly driven by an increase in compensation and recognition of stock-based compensation expense, and a \$41.4 million increase in allocated facilities and other supporting overhead expenses due to the continued expansion of our real estate footprint and increase in support functions. These increases were partially offset by a \$13.3 million increase in the capitalization of costs associated with developing software for internal use.

2014 Compared to 2013. In 2014, research and development expenses increased by \$97.6 million compared to 2013. The increase was primarily attributable to a \$107.2 million increase in personnel-related costs, mainly driven by an increase in average employee headcount, and a \$34.3 million increase in allocated facilities and other supporting overhead expenses due to the continued expansion of our real estate footprint and increase in support functions. These increases were partially offset by a \$43.9 million increase in the capitalization of costs associated with developing software for internal use.

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 increase in absolute dollar amounts for the foreseeable future and vary in the near term from period to period as a percentage of revenue.

Sales and Marketing

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.

	Year Ended December 31, 2015 2014 2013 (in thousands)			2014 to 2015 % Change	2013 to 2014 % Change
Sales and marketing	\$871,491	\$614,110	\$316,216	42	% 94
Sales and marketing as a percentage of revenue	39	% 44	% 48	%	

2015 Compared to 2014. In 2015, sales and marketing expenses increased by \$257.4 million compared to 2014. The increase was primarily attributable to a \$109.2 million increase in marketing and sales-related expenses, mainly driven by an increase in consumer marketing and market research, an \$80.5 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 \$61.0 million increase in allocated facilities and other supporting overhead expenses due to the continued expansion of our real estate footprint and increase in support functions, and a \$6.7 million increase in amortization of acquired intangible assets.

2014 Compared to 2013. In 2014, sales and marketing expenses increased by \$297.9 million compared to 2013. The increase was primarily attributable to a \$153.2 million increase in personnel-related costs, mainly driven by an increase in average employee headcount, a \$98.8 million increase in marketing and sales-related expenses, a \$38.1 million increase in allocated facilities and other supporting overhead expenses due to the continued expansion of our real estate footprint and increase in support functions, and a \$7.8 million increase in amortization of acquired intangible assets.

We plan to continue to invest in sales and marketing to expand internationally, grow our advertiser base and increase our brand awareness. We expect that sales and marketing expenses will increase in absolute dollar amounts for the foreseeable future and 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.

	Year Ended December 31, 2015 2014 2013 (in thousands)			2014 to 2015 % Change	2013 to 2014 % Change
General and administrative	\$260,673	\$189,906	\$123,795	37 %	53 %
General and administrative as a percentage of revenue	12 %	14 %	19 %		

2015 Compared to 2014. In 2015, general and administrative expense increased by \$70.8 million compared to 2014. The increase was primarily attributable to a \$63.7 million increase in personnel-related costs, mainly driven by an increase in average employee headcount, increase in compensation and recognition of stock-based compensation expense, an increase of \$11.0 million in fees and costs for professional services, offset by a \$3.9 million decrease in unallocated facilities and supporting costs.

2014 Compared to 2013. In 2014, general and administrative expense increased by \$66.1 million compared to 2013. The increase was primarily attributable to a \$51.3 million increase in personnel-related costs, mainly driven by an increase in average employee headcount and recognition of stock-based compensation expense, an increase of \$16.3 million in fees and costs for professional services, partially offset by a \$1.5 million decrease in unallocated facilities and supporting costs, driven by slower headcount growth in the general and administrative function relative to other functional areas.

We plan to continue to expand our business both domestically and internationally, and expect to increase the size of our general and administrative function to help grow our business. We expect that general and administrative expenses will increase in absolute dollar amounts for the foreseeable future and 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.

	Year Ended December 31, 2015 2014 2013 (In thousands)		
Interest expense	\$98,178	\$35,918	\$7,576

2015 Compared to 2014. In 2015, interest expense increased by \$62.3 million compared to 2014. The increase was primarily attributable to a full year of interest expense related to the amortization of the debt discount and accrued coupon interest expense of the Notes as compared to a partial year of interest expense recorded in 2014, as the Notes were issued in the third quarter of 2014. Interest expense in 2015 was comprised of \$89.4 million of total interest expense related to the Notes as well as the credit facility and \$8.8 million related to capital leases of equipment.

2014 Compared to 2013. In 2014, interest expense increased by \$28.3 million compared to 2013. The increase was primarily attributable to the interest expense related to the amortization of the debt discount and accrued coupon interest expense of the Notes, which were issued in 2014. Interest expense in 2014 was comprised of \$25.7 million of interest expense related to the Notes and the credit facility and \$10.2 million related to capital leases of equipment. Historically, we incurred interest expense primarily from 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.

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Other income (expense), net	\$14,909	\$(3,567)	\$(3,739)

2015 Compared to 2014. In 2015, other income, net, changed by \$18.5 million compared to other expense, net of \$3.6 million in 2014. The change was attributable to an increase in interest income on our short term investments and favorable foreign currency exchange impacts from foreign currency-denominated assets and liabilities as well as derivative financial instruments. Other income, net in 2015 was comprised of \$13.1 million of interest and other income and \$1.8 million of foreign currency exchange gain.

2014 Compared to 2013. In 2014, other expense, net, decreased by \$0.2 million compared to 2013. The decrease was primarily attributable to an increase in interest income on our short term investments offset by unfavorable foreign currency exchange impact from foreign currency-denominated assets and liabilities. Other expense, net in 2014 was comprised of \$7.2 million of foreign currency exchange loss netted with \$3.6 million of interest and other income.

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.

	Year Ended December 31,		
	2015	2014	2013
Benefit from income taxes	\$12,274	\$531	\$1,823

2015 Compared to 2014. Our benefit from income taxes in 2015 increased by \$11.7 million compared to a benefit of \$0.5 million in 2014. The increase was primarily due to the increased income tax benefit arising from acquisitions, partially offset by the increased income tax expense in foreign jurisdictions.

2014 Compared to 2013. Our benefit for income taxes in 2014 decreased by \$1.3 million compared to a benefit of \$1.8 million in 2013. The decrease was primarily due to the increased income tax expense in foreign jurisdictions, partially offset by the increased income tax benefit arising from acquisitions.

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 is being appealed by the Internal Revenue Service. 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. 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.

As of December 31, 2015, we had \$3.37 billion of federal and \$1.34 billion of state net operating loss carryforwards available to reduce future taxable income. These net operating loss carryforwards will begin to expire for federal income tax purposes and state income tax purposes in 2027 and 2016, respectively. We also have research credit carryforwards of \$188.2 million and \$150.6 million for federal and state income tax purposes, respectively. The federal research credit carryforward will begin to expire in 2027. The state research credit carryforward has no expiration date. Additionally, we have California Enterprise Zone credit carryforwards of \$18.0 million which will begin to expire in 2023. Utilization of the net operating loss carryforwards and research credit carryforwards may be subject to an annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended, and similar state provisions. Any annual limitation may result in the expiration of net operating losses and research credits before utilization.

Quarterly Results of Operations

The following table sets forth our unaudited consolidated statement of operations data for each of the eight quarters in the period ended December 31, 2015. The unaudited quarterly statement of operations data set forth below have been prepared on a basis consistent with our audited annual consolidated financial statements in this Annual Report on Form 10-K and include, in our opinion, all normal recurring adjustments necessary for a fair statement of the financial information contained in those statements. Our historical results are not necessarily indicative of the results that may be expected in the future. The following quarterly financial data should be read in conjunction with our audited consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K.

	Three Months Ended							
	Dec. 31, 2015	Sep. 30, 2015	Jun. 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sep. 30, 2014	Jun. 30, 2014	Mar. 31, 2014
	(Unaudited, in thousands, except per share data)							
Consolidated Statement of Operations Data:								
Revenue								
Advertising services	\$640,680	\$512,867	\$452,278	\$388,211	\$432,001	\$320,196	\$277,440	\$226,051
Data licensing and other	69,793	56,370	50,105	47,728	47,077	41,070	34,726	24,441
Total revenue	710,473	569,237	502,383	435,939	479,078	361,266	312,166	250,492
Costs and expenses ⁽¹⁾								
Cost of revenue	217,963	200,195	167,623	143,475	136,613	124,166	100,027	85,503
Research and development	210,058	207,937	198,907	189,746	181,715	183,342	177,095	149,391
Sales and marketing	277,189	208,797	201,948	183,557	203,599	164,015	140,261	106,235
General and administrative	72,442	57,545	64,909	65,777	55,304	51,174	44,694	38,734
Total costs and expenses	777,652	674,474	633,387	582,555	577,231	522,697	462,077	379,863

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Loss from operations	(67,179)	(105,237)	(131,004)	(146,616)	(98,153)	(161,431)	(149,911)	(129,371)
Interest expense	(24,183)	(25,239)	(24,437)	(24,319)	(24,083)	(6,079)	(2,654)	(3,102)
Other income (expense), net	4,531	1,948	(695)	9,125	571	(7,795)	2,324	1,333
Loss before income taxes	(86,831)	(128,528)	(156,136)	(161,810)	(121,665)	(175,305)	(150,241)	(131,140)
Provision (benefit) for income taxes	3,405	3,162	(19,473)	632	3,687	159	(5,599)	1,222
Net loss	\$(90,236)	\$(131,690)	\$(136,663)	\$(162,442)	\$(125,352)	\$(175,464)	\$(144,642)	\$(132,362)
Net loss per share attributable to common stockholders:								
Basic and diluted	\$(0.13)	\$(0.20)	\$(0.21)	\$(0.25)	\$(0.20)	\$(0.29)	\$(0.24)	\$(0.23)
Other Financial Information:								
Adjusted EBITDA ⁽²⁾	\$191,418	\$142,148	\$120,188	\$104,053	\$141,490	\$68,326	\$54,131	\$36,949
Non-GAAP net income ⁽³⁾	\$114,619	\$66,984	\$48,518	\$46,508	\$79,320	\$6,972	\$14,596	\$183

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

	Three Months Ended							
	Dec. 31, 2015	Sep. 30, 2015	Jun. 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sep. 30, 2014	Jun. 30, 2014	Mar. 31, 2014
	(Unaudited, in thousands)							
Cost of revenue	\$8,360	\$8,973	\$10,486	\$12,886	\$13,240	\$13,596	\$13,869	\$9,831
Research and development	94,707	100,673	103,121	103,036	95,942	93,973	92,493	78,318
Sales and marketing	36,750	37,889	39,607	42,658	49,031	42,884	37,547	27,801
General and administrative	18,432	18,386	21,929	24,225	19,002	19,149	14,502	10,419
Total stock-based compensation expense	\$158,249	\$165,921	\$175,143	\$182,805	\$177,215	\$169,602	\$158,411	\$126,369

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

	Three Months Ended							
	Dec. 31, 2015	Sep. 30, 2015	Jun. 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sep. 30, 2014	Jun. 30, 2014	Mar. 31, 2014
	(Unaudited, in thousands)							
Reconciliation of Net Loss to Adjusted EBITDA:								
Net loss	\$(90,236)	\$(131,690)	\$(136,663)	\$(162,442)	\$(125,352)	\$(175,464)	\$(144,642)	\$(132,362)
Stock-based compensation expense	158,249	165,921	175,143	182,805	177,215	169,602	158,411	126,369
Depreciation and amortization expense	87,446	81,464	76,049	67,864	62,428	60,155	45,631	39,951
Interest and other expense (income)	19,652	23,291	25,132	15,194	23,512	13,874	330	1,769
Provision (benefit) for income taxes	3,405	3,162	(19,473)	632	3,687	159	(5,599)	1,222
Restructuring charges	12,902	—	—	—	—	—	—	—
Adjusted EBITDA	\$191,418	\$142,148	\$120,188	\$104,053	\$141,490	\$68,326	\$54,131	\$36,949

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

	Three Months Ended							
	Dec. 31, 2015	Sep. 30, 2015	Jun. 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sep. 30, 2014	Jun. 30, 2014	Mar. 31, 2014

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(Unaudited, in thousands)

Reconciliation of								
Net Loss to								
Non-GAAP Net								
Income:								
Net loss	\$(90,236)	\$(131,690)	\$(136,663)	\$(162,442)	\$(125,352)	\$(175,464)	\$(144,642)	\$(132,362)
Stock-based								
compensation								
expense	158,249	165,921	175,143	182,805	177,215	169,602	158,411	126,369
Amortization of								
acquired intangible								
assets								
	15,418	14,481	13,965	10,795	10,419	11,869	8,099	6,176
Non-cash interest								
expense related to								
convertible notes								
	18,046	17,495	17,006	16,638	16,412	2,411	—	—
Non-cash expense								
related to								
acquisitions								
	—	—	926	—	—	—	—	—
Income tax effects								
related to								
acquisitions								
	240	777	(21,859)	(1,288)	626	(1,446)	(7,272)	—
Restructuring								
charges								
	12,902	—	—	—	—	—	—	—
Non-GAAP net								
income	\$114,619	\$66,984	\$48,518	\$46,508	\$79,320	\$6,972	\$14,596	\$183

Quarterly Trends

Revenue

Spending by advertisers is traditionally strongest in the fourth quarter of each year. Historically, this seasonality in advertising spending has affected our quarterly results with higher sequential advertising revenue growth from the third to the fourth quarter compared to sequential advertising revenue growth from the fourth quarter to the subsequent first quarter. For example, our advertising revenue increased 43%, 35% and 25% between the third and fourth quarters of 2013, 2014 and 2015, respectively, while advertising revenue for the first quarter of 2014 and 2015 increased 3% and decreased 10% compared to the fourth quarter of 2013 and 2014, respectively.

Total Costs and Expenses

Total costs and expenses, which include significant amounts of stock-based compensation expense, increased in every quarter presented primarily due to the continued expansion of our facilities and an increase in average employee headcount. The increase in total costs and expenses in the fourth quarter of 2015 was the result of an increase in advertising costs as well as an increase in traffic acquisition costs as a result of the growth of sale to advertisers of our advertising products which we place on third-party publishers' websites, applications or other offerings.

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. Loans under the credit facility bear interest, at our option, at (i) a base rate based on the highest of the prime rate, the federal funds rate plus 0.50% and an adjusted LIBOR rate for a one-month interest period plus 1.00%, in each case plus a margin ranging from 0.00% to 0.75% or (ii) an adjusted LIBOR rate plus a margin ranging from 1.00% to 1.75%. This margin is determined based on our total leverage ratio for the preceding four fiscal quarter period. We are also obligated to pay 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.

The revolving credit agreement was amended in September 2014 to increase the amount of indebtedness that we may incur and increase the amount of restricted payments that we may make. This amendment to the revolving credit agreement also provides that if our total leverage ratio exceeds 2.5:1.0 and if the amount outstanding under the credit facility exceeds \$500.0 million, or 50% of the amount that may be borrowed under the credit facility, the credit facility will become secured by substantially all of our and certain of our subsidiaries' assets, subject to limited exceptions. As of December 31, 2015, no amounts were drawn under the credit facility.

Liquidity and Capital Resources

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Consolidated Statements of Cash Flows Data:			
Net loss	\$(521,031)	\$(577,820)	\$(645,323)
Net cash provided by operating activities	383,066	81,796	1,398
Net cash used in investing activities	(902,421)	(1,097,272)	(1,306,066)
Net cash provided by (used in) financing activities	(62,998)	1,691,722	1,942,176

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. In 2014, we also received net proceeds of approximately \$1.86 billion from the issuance of the Notes, after deducting the initial purchasers' discount and debt issuance costs. Concurrently with the sales of the Notes, we entered into privately-negotiated convertible note hedge transactions with respect to our common stock for which we paid approximately \$407.2 million and sold warrants for which we received approximately \$289.3 million. We expect that we will continue to incur additional cash interest expense for the term of the Notes. See section entitled "Contractual Obligations" below for further information

regarding interest expense related to the Notes.

As of December 31, 2015, we had \$3.50 billion of cash, cash equivalents and short-term investments in marketable securities, of which \$152.3 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 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.

Operating Activities

Cash provided by operating activities consisted 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.

Cash provided by operating activities in 2015 was \$383.1 million, an increase in cash inflow of \$301.3 million compared to 2014. Cash provided by operating activities was driven by a net loss of \$521.0 million, as adjusted for the exclusion of non-cash expenses and other adjustments totaling \$1.04 billion, of which \$678.9 million was related to stock-based compensation expense, and the effect of changes in working capital and other carrying balances that resulted in cash outflow of \$135.9 million.

Cash provided by operating activities in 2014 was \$81.8 million, an increase in cash inflow of \$80.4 million compared to 2013. Cash provided by operating activities was driven by a net loss of \$577.8 million, as adjusted for the exclusion of non-cash expenses totaling \$861.6 million, of which \$631.6 million was related to stock-based compensation expense, and the effect of changes in working capital and other carrying balances that resulted in cash outflow of \$202.0 million.

Cash provided by operating activities in 2013 was \$1.4 million, an increase in cash inflow of \$29.3 million compared to 2012. Cash provided by operating activities was driven by a net loss of \$645.3 million, as adjusted for the exclusion of non-cash expenses totaling \$708.1 million, of which \$600.4 million was related to stock-based compensation expense, and the effect of changes in working capital and other carrying balances that resulted in cash outflow of \$61.4 million.

Investing Activities

Our primary investing activities consisted of purchases of property and equipment, particularly purchases of servers and networking equipment, leasehold improvements for our facilities, purchases and disposal of marketable securities, acquisitions of businesses and other activities.

Cash used in investing activities in 2015 was \$902.4 million, a decrease in cash outflow of \$194.9 million compared to 2014. The decrease in cash outflow was due to the increase in sales and maturities of marketable securities of \$987.6 million and a reduction in use of cash as acquisition consideration of \$111.8 million. Such increases in cash inflow were partially offset by increased purchases of marketable securities of \$746.4 million, property and equipment of \$145.7 million and other investments of \$12.4 million.

Cash used in investing activities in 2014 was \$1.10 billion, a decrease in cash outflow of \$208.8 million compared to 2013. The decrease in cash outflow was due to an increase in the proceeds from maturities and sales of marketable securities of \$1.82 billion offset by an increase in the purchases of marketable securities of \$1.36 billion and a \$247.2 million increase in expenditures on other investing activities, including business combinations, purchases of intangible assets, purchases of property and equipment and restricted cash.

Cash used in investing activities in 2013 was \$1.31 billion, an increase in cash outflow of \$1.36 billion compared to 2012. The increase in cash outflow was due to an increase in the purchases of marketable securities of \$1.03 billion, a decrease in the proceeds from maturities and sales of marketable securities of \$249.3 million and a \$75.4 million increase in expenditure on other investing activities, including business combinations, purchases of intangible assets, purchases of property and equipment and restricted cash.

We anticipate making capital expenditures in 2016 of approximately \$300 million to \$425 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 consisted of issuances of securities (including the Notes, common stock issued under employee stock purchase plan, common stock issued in connection with our initial public offering and, in the past, private sales of convertible preferred stock), capital lease financing and stock option exercises by employees and other service providers.

Cash used in financing activities in 2015 was \$63.0 million compared to \$1.69 billion cash provided by financing activities in 2014. The decrease in cash inflow was due to the absence of any financing transactions similar to the Notes in 2015.

Cash provided by financing activities in 2014 was \$1.69 billion, a decrease of \$250.5 million in cash inflow compared to 2013. The decrease in cash inflow was primarily due to net proceeds of \$1.86 billion from the issuance of convertible senior notes net of initial issuance discount reduced by the net cash outflow of \$117.9 million from the purchase of convertible note hedges and sale of warrants closed in connection with the issuance of Notes in 2014 compared to net proceeds of \$2.02 billion from issuance of common stock in connection with our initial public offering in 2013. In addition, we recorded an increase of \$62.4 million in proceeds from option exercises and issuance of common stock under our employee stock purchase plan, partially offset by a \$32.7 million increase in repayments of capital lease obligations.

Cash provided by financing activities in 2013 was \$1.94 billion, an increase of \$1.98 billion in cash inflow compared to 2012. The increase in cash inflow was primarily due to net proceeds of \$2.02 billion from issuance of common stock in connection with our initial public offering and a slight increase in proceeds from option exercises, partially offset by an increase in repayments of capital lease obligations and payroll tax payments related to net share settlement of equity awards.

Off Balance Sheet Arrangements

We do not have any off-balance sheet arrangements and did not have any such arrangements in 2015, 2014 or 2013.

Contractual Obligations

Our principal commitments consist of obligations under the Notes (including principal and coupon interest), capital and operating leases for equipment, office space and co-located data center facilities, as well as non-cancellable contractual commitments. The following table summarizes our commitments to settle contractual obligations in cash as of December 31, 2015.

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(In thousands)				
2019 Notes	\$944,357	\$2,344	\$4,675	\$937,338	\$—
2021 Notes	1,011,292	9,566	19,080	19,106	963,540
Operating lease obligations	918,150	148,001	304,511	221,850	243,788
Capital lease obligations	153,786	93,001	60,193	592	—
Other contractual commitments ⁽¹⁾	166,318	87,751	78,567	—	—
Total contractual obligations	\$3,193,903	\$340,663	\$467,026	\$1,178,886	\$1,207,328

⁽¹⁾ Other contractual commitments are non-cancelable contractual commitments primarily related to our infrastructure services, bandwidth and other services arrangements.

As of December 31, 2015, we had recorded liabilities of \$1.1 million related to uncertain tax positions. Due to uncertainties in the timing of potential tax audits, the timing of the resolution of these positions is uncertain and we are unable to make a reasonably reliable estimate of the timing of payments in individual years beyond 12 months. As a result, this amount is not included in the above table.

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, which we discuss further below.

Revenue Recognition

We generate the substantial majority of our revenue from the sale of advertising services with the balance coming from data licensing and other arrangements. We generate our advertising revenue primarily from the sale of our three Promoted Products: (i) Promoted Tweets, (ii) Promoted Accounts and (iii) Promoted Trends. Promoted Tweets and Promoted Accounts are pay-for-performance advertising products priced through an auction. Promoted Trends are featured by geography and offered on a fixed-fee-per-day basis. Advertisers are obligated to pay when a user engages with a Promoted Tweet or follows a Promoted Account or when a Promoted Trend is displayed. These products may be sold in combination as a multiple element arrangement or separately on a stand-alone basis.

We also generate advertising revenue by selling to advertisers advertising products which we place on third party publishers' websites, applications or other offerings. To fulfill these transactions, we purchase advertising inventory from third party publishers' websites and applications where we have identified the advertisers' targeted audience and therefore incur traffic acquisition costs. In such transactions, we remain the primary obligor to our advertisers for the advertising services and products delivered, have pricing latitude, have discretion in the selection of third party publishers and bear credit risk. We might not generate advertising revenue in excess of traffic acquisition costs incurred. Therefore, we report advertising revenue generated from these transactions on a gross basis.

Fees for these advertising services are recognized in the period when advertising is delivered as evidenced by a user engaging with a Promoted Tweet in a manner satisfying 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, following a Promoted Account, through the display of a Promoted Trend on our platform, or completion of a transaction on an external website.

Data licensing revenue is generated based on monthly service fees charged to the data partners over the period in which Twitter data and data products are made available to them. Other revenue is primarily generated from service fees from transactions completed on our mobile ad 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.

Revenue is recognized only when (1) persuasive evidence of an arrangement exists; (2) the price is fixed or determinable; (3) the service is performed; and (4) collectability of the related fee is reasonably assured. While the majority of our revenue transactions are based on standard business terms and conditions, we also enter into sales agreements with advertisers and data partners that sometimes involve multiple elements.

For arrangements involving multiple deliverables, judgment is required to determine the appropriate accounting, including developing an estimate of the stand-alone selling price of each deliverable. When neither vendor-specific objective evidence nor third-party evidence of selling price exists, we use our best estimate of selling price (BESP) to allocate the arrangement consideration on a relative selling price basis to each deliverable. The objective of BESP is to determine the selling price of each deliverable when it is sold to advertisers on a stand-alone basis. In determining BESP, we take into consideration various factors, including, but not limited to, prices we charge for similar offerings, sales volume, geographies, pricing strategies and market conditions. Multiple deliverable arrangements primarily consist of combinations of our pay-for-performance products, Promoted Tweets and Promoted Accounts, which are priced through an auction, and Promoted Trends, which are priced on a fixed-fee-per day per geography basis. For arrangements that include a combination of these products, we develop an estimate of the selling price for these products in order to allocate any potential discount to all advertising products in the arrangement. The estimate of selling price for pay-for-performance products is determined based on the winning bid price; the estimate of selling price for Promoted Trends is based on Promoted Trends sold on a stand-alone basis and/or separately priced in a

bundled arrangement by reference to a list price by geography which is approved periodically. We believe the use of BESP results in revenue recognition in a manner consistent with the underlying economics of the transaction and allocates the arrangement consideration on a relative selling price basis to each deliverable.

Income Taxes

We are subject to income taxes in the United States and several foreign jurisdictions. Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes.

Although we believe we have adequately reserved for our uncertain tax positions, no assurance can be given that the final outcome of these matters will not be different. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit. To the extent that the final outcome of these matters is different than the amounts recorded, such differences may impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate, as well as any related interest or penalties.

Our effective tax rates have differed from the statutory rate primarily due to the tax impact of foreign operations, state taxes, certain benefits realized in recording the tax effects of business combinations, and the recording of U.S. valuation allowance. Our future provision for income taxes could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory tax rates, changes in the valuation of our deferred tax assets or liabilities, or changes in tax laws, regulations or accounting principles. In addition, we are subject to examination of our income tax returns by tax authorities in the United States and foreign jurisdictions. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

Stock-Based Compensation

We account for stock-based compensation expense under the fair value recognition and measurement provisions in accordance with the applicable accounting standards which require all stock-based awards granted to employees to be measured based on the grant-date fair value and amortized over the respective period during which the employee is required to provide service.

The fair value of stock options granted and stock purchase rights provided under the employee stock purchase plan is estimated based on the Black-Scholes option pricing model which requires inputs of judgmental assumptions including the expected term of the award and stock price volatility. If any of the assumptions used in the fair value determination change significantly, stock-based compensation expense may differ materially.

We have historically granted Pre-2013 RSUs which had both service and performance-based vesting conditions. As the satisfaction of the performance condition became probable upon completion of our initial public offering in November 2013, we started recording stock-based compensation expense on an accelerated basis for the awards for which the service condition had been satisfied.

We amortize the expense associated with all other stock-based awards which are only subject to service conditions, including Post-2013 RSUs, on a straight-line basis.

We are required to recognize stock-based compensation expense for only those shares that we expect to vest. We estimate the forfeiture rate based on historical forfeitures of our stock-based awards and our expectations regarding future pre-vesting termination behavior of our employees. While the forfeiture rate used represents our best estimate, this estimate involves inherent uncertainties. To the extent the actual forfeitures differ from our estimates, stock-based compensation expense will be adjusted accordingly and may have a significant effect on our stock-based compensation expense.

Business Combinations

We account for acquisitions of entities that include inputs and processes and have the ability to create outputs as business combinations. The purchase price of the acquisition is allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition dates. The excess of the purchase price over those fair values is recorded as goodwill. During the measurement period, which may be up to one year from the

acquisition date, we may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the consolidated statements of operations.

Accounting for business combinations requires our management to make significant estimates and assumptions at the acquisition date, including estimated fair value of acquired intangible assets, estimated fair value of stock awards assumed from the acquirees that are included in the purchase price, estimated income tax assets and liabilities assumed from the acquirees, and determination of the fair value of contractual obligations, where applicable. The estimates of fair value require management to also make estimates of, among other things, future expected cash flows, discount rates or expected costs to reproduce an asset. Although we believe the assumptions and estimates we have made in the past have been reasonable and appropriate, these estimates are based on historical experience and information obtained from the management of the acquired companies and are inherently uncertain.

Impact of Recently Issued Accounting Standards

The impact of recently issued accounting standards is set forth in Note 2, Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements under Item 8 of this Annual Report on Form 10-K.

Item 7A. 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 in 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 December 31, 2015, a hypothetical increase in interest rates of 100 basis points would result in a decrease of approximately \$15.4 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 primarily 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 gains were \$1.8 million in 2015 and net realized and unrealized foreign currency losses were \$7.2 million in 2014. Foreign currency gains and losses were not material in 2013. Based on our foreign currency exposures from monetary assets and liabilities, we estimated that a 5% change in exchange rates against the U.S. dollars would result in a gain or loss of approximately \$16.6 million as of December 31, 2015. 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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The supplementary financial information required by this Item 8 is included in Item 7 under the caption “Quarterly Results of Operations.”

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Twitter, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of comprehensive loss, of redeemable convertible preferred stock, convertible preferred stock and stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Twitter, Inc. and its subsidiaries at December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15.2 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our audits (which were integrated audits in 2015 and 2014). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it classifies deferred tax assets and liabilities in 2015.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that

controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

San Jose, California

February 29, 2016

TWITTER, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

	December 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$911,471	\$1,510,724
Short-term investments	2,583,877	2,111,154
Accounts receivable, net of allowance for doubtful accounts of \$8,121 and \$5,507 as of December 31, 2015 and 2014, respectively	638,694	418,454
Prepaid expenses and other current assets	247,750	215,521
Total current assets	4,381,792	4,255,853
Property and equipment, net	735,299	557,019
Intangible assets	141,015	105,011
Goodwill	1,122,728	622,570
Other assets	61,605	42,629
Total assets	\$6,442,439	\$5,583,082
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$134,081	\$53,241
Accrued and other current liabilities	283,792	228,233
Capital leases, short-term	88,166	112,320
Total current liabilities	506,039	393,794
Convertible notes	1,455,095	1,376,020
Capital leases, long-term	59,695	118,950
Deferred and other long-term tax liabilities, net	2,978	24,706
Other long-term liabilities	50,585	43,209
Total liabilities	2,074,392	1,956,679
Commitments and contingencies (Note 14)		
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; 694,132 and 642,385 shares issued and outstanding as of December 31, 2015 and 2014, respectively	3	3
Additional paid-in capital	6,507,087	5,208,870
Accumulated other comprehensive loss	(45,566)	(10,024)
Accumulated deficit	(2,093,477)	(1,572,446)
Total stockholders' equity	4,368,047	3,626,403
Total liabilities and stockholders' equity	\$6,442,439	\$5,583,082

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

TWITTER, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Year Ended December 31,		
	2015	2014	2013
Revenue	\$2,218,032	\$1,403,002	\$664,890
Costs and expenses			
Cost of revenue	729,256	446,309	266,718
Research and development	806,648	691,543	593,992
Sales and marketing	871,491	614,110	316,216
General and administrative	260,673	189,906	123,795
Total costs and expenses	2,668,068	1,941,868	1,300,721
Loss from operations	(450,036)	(538,866)	(635,831)
Interest expense	(98,178)	(35,918)	(7,576)
Other income (expense), net	14,909	(3,567)	(3,739)
Loss before income taxes	(533,305)	(578,351)	(647,146)
Benefit from income taxes	(12,274)	(531)	(1,823)
Net loss	\$(521,031)	\$(577,820)	\$(645,323)
Net loss per share attributable to common stockholders:			
Basic	\$(0.79)	\$(0.96)	\$(3.41)
Diluted	\$(0.79)	\$(0.96)	\$(3.41)
Weighted-average shares used to compute net loss			
per share attributable to common stockholders:			
Basic	662,424	604,990	189,510
Diluted	662,424	604,990	189,510

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

TWITTER, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

	Year Ended December 31,		
	2015	2014	2013
Net loss	\$(521,031)	\$(577,820)	\$(645,323)
Other comprehensive income (loss):			
Unrealized loss on investments in available-for-sale securities, net of tax	(3,019)	(877)	(76)
Foreign currency translation adjustment	(32,523)	(8,824)	410
Net change in accumulated other comprehensive loss	(35,542)	(9,701)	334
Comprehensive loss	\$(556,573)	\$(587,521)	\$(644,989)

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

TWITTER, INC.

CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK,

CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY

(In thousands)

	Year Ended December 31,					
	2015		2014		2013	
	Shares	Amount	Shares	Amount	Shares	Amount
Redeemable convertible preferred stock						
Balance, beginning of period	—	\$—	—	\$—	3,569	\$37,106
Forfeiture of restricted stock	—	—	—	—	(45)	—
Conversion of Redeemable Class A junior preferred stock to common stock	—	—	—	—	(3,524)	(37,106)
Balance, end of period	—	\$—	—	\$—	—	\$—
Convertible preferred stock						
Balance, beginning of period	—	\$—	—	\$—	329,575	\$835,430
Conversion of convertible preferred stock to common stock	—	—	—	—	(329,575)	(835,430)
Balance, end of period	—	\$—	—	\$—	—	\$—
Stockholders' equity						
Common stock						
Balance, beginning of period	642,385	\$3	569,922	\$3	125,597	\$1
Issuance of common stock in connection with RSU vesting	24,002	—	42,748	—	—	—
Issuance of common stock in connection with acquisitions	13,613	—	3,326	—	17,665	—
Issuance of restricted stock in connection with acquisitions accounted for stock-based compensation	2,533	—	2,337	—	5,775	—
Exercise of stock options	10,992	—	22,447	—	7,408	—
Issuance of common stock upon purchases under employee stock purchase plan	1,525	—	1,887	—	—	—
Issuance of common stock upon initial public offering	—	—	—	—	80,500	—
Conversion of Redeemable Class A junior preferred stock to common stock	—	—	—	—	3,524	—
Conversion of convertible preferred stock to common stock	—	—	—	—	329,575	2
Shares withheld related to net share settlement of equity awards	(281)	—	(307)	—	—	—
Other activities	(637)	—	25	—	(122)	—
Balance, end of period	694,132	\$3	642,385	\$3	569,922	\$3

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Additional paid-in capital						
Balance, beginning of period	—	\$5,208,870	—	\$3,944,952	—	\$101,787
Issuance of common stock in connection with acquisitions	—	516,538	—	147,958	—	335,913
Exercise of stock options	—	17,914	—	28,881	—	8,751
Issuance of common stock upon purchases under employee stock purchase plan	—	39,295	—	42,402	—	—
Issuance of common stock upon initial public offering, net of issuance costs	—	—	—	(240)	—	2,019,741
Conversion of preferred stock to common stock	—	—	—	—	—	872,534
Shares withheld related to net share settlement of equity awards	—	(11,101)	—	(17,053)	—	(14,637)
Stock-based compensation	—	729,193	—	672,371	—	596,148
Reclassification of preferred stock liability and preferred stock warrant liability to additional paid-in capital	—	—	—	—	—	24,241
Equity component of the convertible note issuance, net	—	—	—	505,982	—	—
Purchase of convertible note hedge	—	—	—	(407,169)	—	—
Issuance of warrants	—	—	—	289,272	—	—
Other activities	—	6,378	—	1,514	—	474
Balance, end of period	—	\$6,507,087	—	\$5,208,870	—	\$3,944,952
Accumulated other comprehensive loss						
Balance, beginning of period	—	\$(10,024)	—	\$(323)	—	\$(657)
Other comprehensive income (loss)	—	(35,542)	—	(9,701)	—	334
Balance, end of period	—	\$(45,566)	—	\$(10,024)	—	\$(323)
Accumulated deficit						
Balance, beginning of period	—	\$(1,572,446)	—	\$(994,626)	—	\$(349,303)
Net loss	—	(521,031)	—	(577,820)	—	(645,323)
Balance, end of period	—	\$(2,093,477)	—	\$(1,572,446)	—	\$(994,626)
Total stockholders' equity	694,132	\$4,368,047	642,385	\$3,626,403	569,922	\$2,950,006

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

TWITTER, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,		
	2015	2014	2013
Cash flows from operating activities			
Net loss	\$(521,031)	\$(577,820)	\$(645,323)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	312,823	208,165	110,894
Stock-based compensation expense	678,924	631,597	600,367
Amortization of discount on convertible notes	69,185	18,823	—
Provision for bad debt	5,765	4,632	1,557
Deferred income tax benefit	(28,125)	(9,609)	(8,902)
Other adjustments	1,438	7,983	4,161
Changes in assets and liabilities, net of assets acquired and liabilities assumed from acquisitions:			
Accounts receivable	(216,585)	(177,583)	(112,060)
Prepaid expenses and other assets	(50,170)	(165,395)	(12,045)
Accounts payable	76,355	18,059	7,957
Accrued and other liabilities	54,487	122,944	54,792
Net cash provided by operating activities	383,066	81,796	1,398
Cash flows from investing activities			
Purchases of property and equipment	(347,280)	(201,630)	(75,744)
Purchases of marketable securities	(3,683,488)	(2,937,033)	(1,573,489)
Proceeds from maturities of marketable securities	2,821,745	2,029,518	355,270
Proceeds from sales of marketable securities	383,413	188,092	42,816
Changes in restricted cash	(3,549)	(11,042)	(10,847)
Business combinations, net of cash acquired	(51,644)	(163,477)	(8,072)
Other investing activities	(21,618)	(1,700)	(36,000)
Net cash used in investing activities	(902,421)	(1,097,272)	(1,306,066)
Cash flows from financing activities			
Net proceeds from issuance of common stock upon initial public offering	—	—	2,018,579
Proceeds from issuance of convertible notes	—	1,889,000	—
Convertible notes initial issuance discount	—	(28,810)	—
Purchases of convertible note hedges	—	(407,169)	—
Proceeds from issuance of warrants	—	289,272	—
Taxes paid related to net share settlement of equity awards	(11,101)	(17,053)	(14,637)
Repayments of capital lease obligations	(117,535)	(103,135)	(70,445)
Proceeds from exercise of stock options	17,361	28,658	8,679
Proceeds from issuances of common stock under employee stock purchase plan	39,295	42,402	—
Other financing activities	8,982	(1,443)	—
Net cash provided by (used in) financing activities	(62,998)	1,691,722	1,942,176

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Net increase (decrease) in cash and cash equivalents	(582,353)	676,246	637,508
Foreign exchange effect on cash and cash equivalents	(16,900)	(6,532)	174
Cash and cash equivalents at beginning of period	1,510,724	841,010	203,328
Cash and cash equivalents at end of period	\$911,471	\$1,510,724	\$841,010
Supplemental cash flow data			
Interest paid in cash	\$15,985	\$10,000	\$6,850
Taxes paid in cash	\$8,229	\$14,895	\$2,391
Supplemental disclosures of non-cash investing and financing activities			
Conversion of preferred stock to common stock	\$—	\$—	\$872,536
Common stock issued in connection with acquisitions	\$516,538	\$147,958	\$331,766
Equipment purchases under capital leases	\$31,215	\$140,685	\$155,722
Changes in accrued equipment purchases	\$3,902	\$6,562	\$(1,602)
Unpaid deferred offering costs	\$—	\$—	\$1,162

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

TWITTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. The Company

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.

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of the Company’s consolidated financial statements in conformity with generally accepted accounting principles in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, as well as related disclosure of contingent assets and liabilities. Actual results could differ materially from the Company’s estimates. To the extent that there are material differences between these estimates and actual results, the Company’s financial condition or operating results will be affected. The Company bases its estimates on past experience and other assumptions that the Company believes are reasonable under the circumstances, and the Company evaluates these estimates on an ongoing basis. . Certain prior period amounts have been reclassified to conform to the current period presentation.

Revenue Recognition

The Company generates the substantial majority of its revenue from the sale of advertising services and, to a lesser extent, from entering into data licensing and other arrangements.

The Company’s advertising services include three primary products: (i) Promoted Tweets, (ii) Promoted Accounts and (iii) Promoted Trends. Promoted Tweets and Promoted Accounts are pay-for-performance advertising products priced through an auction. Promoted Trends are featured by geography and offered on a fixed-fee-per-day basis. Advertisers are obligated to pay when a user engages with a Promoted Tweet or follows a Promoted Account or when a Promoted Trend is displayed. These products may be sold in combination as a multiple element arrangement or separately on a stand-alone basis.

The Company also generates advertising revenue by selling to advertisers advertising products which it places on third party publishers’ websites, applications or other offerings. To fulfill these transactions, the Company purchases advertising inventory from third party publishers’ websites and applications where it has identified the advertisers’

targeted audience and therefore incurs traffic acquisition costs. In such transactions, the Company remains the primary obligor to its advertisers for the advertising services and products delivered, has pricing latitude, has discretion in the selection of third party publishers and bears credit risk. The Company might not generate advertising revenue in excess of traffic acquisition costs incurred. Therefore, the Company reports advertising revenue generated from these transactions on a gross basis.

Fees for these advertising services are recognized in the period when advertising is delivered as evidenced by a user engaging with a Promoted Tweet in a manner satisfying 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, following a Promoted Account, through the display of a Promoted Trend on the Company's platform, or completion of a transaction on an external website. Data licensing revenue is generated based on monthly service fees charged to the data partners over the period in which the Company's data and data products are made available to them. Other revenue is primarily generated from service fees from transactions completed on the Company's mobile ad exchange. The Company's mobile ad exchange enables buyers and sellers to purchase and sell advertising inventory and matches buyers and sellers. The Company has determined it is not the principal in the purchase and sale of advertising inventory in transactions between third party buyers and sellers on the exchange. Therefore, the Company reports revenue related to its ad exchange services on a net basis.

Revenue is recognized only when (1) persuasive evidence of an arrangement exists; (2) the price is fixed or determinable; (3) the service is performed; and (4) collectability of the related fee is reasonably assured. While the majority of the Company's revenue transactions are based on standard business terms and conditions, the Company also enters into sales agreements with advertisers and data partners that sometimes involve multiple elements.

For arrangements involving multiple deliverables, judgment is required to determine the appropriate accounting, including developing an estimate of the stand-alone selling price of each deliverable. When neither vendor-specific objective evidence nor third-party evidence of selling price exists, the Company uses its best estimate of selling price (BESP) to allocate the arrangement consideration on a relative selling price basis to each deliverable. The objective of BESP is to determine the selling price of each deliverable when it is sold to advertisers on a stand-alone basis. In determining BESP, the Company takes into consideration various factors, including, but not limited to, prices the Company charges for similar offerings, sales volume, geographies, pricing strategies and market conditions. Multiple deliverable arrangements primarily consist of combinations of the Company's pay-for-performance products, Promoted Tweets and Promoted Accounts, which are priced through an auction, and Promoted Trends, which are priced on a fixed-fee-per day per geography basis. For arrangements that include a combination of these products, the Company develops an estimate of the selling price for these products in order to allocate any potential discount to all advertising products in the arrangement. The estimate of selling price for pay-for-performance products is determined based on the winning bid price; the estimate of selling price for Promoted Trends is based on Promoted Trends sold on a stand-alone basis and/or separately priced in a bundled arrangement by reference to a list price by geography which is approved periodically. The Company believes the use of BESP results in revenue recognition in a manner consistent with the underlying economics of the transaction and allocates the arrangement consideration on a relative selling price basis to each deliverable.

Cost of Revenue

Cost of revenue includes infrastructure costs, other direct costs, amortization expense of technology acquired through acquisitions and capitalized labor costs, allocated facilities costs, as well as traffic acquisition costs ("TAC"). Infrastructure costs consist primarily of data center costs related to the Company's co-located facilities, which include lease and hosting costs, related support and maintenance costs and energy and bandwidth costs, as well as depreciation of its servers and networking equipment, and personnel-related costs, including salaries, benefits and stock-based compensation, for its operations teams. TAC consists of costs incurred with third parties in connection with the sale to advertisers of advertising products that the Company places on third-party publishers' websites, applications or other offerings collectively resulting from acquisitions and from the Company's organically-built advertising network, Twitter Audience Platform.

Stock-Based Compensation Expense

The Company accounts for stock-based compensation expense under the fair value recognition and measurement provisions of GAAP. Stock-based awards granted to employees are measured based on the grant-date fair value with the resulting expense recognized over the respective period during which the award recipient is required to provide service.

Pre-2013 RSUs, as defined and further described in Note 12—Common Stock and Stockholders' Equity, vest upon satisfaction of both a service condition and a performance condition. The service condition for these awards is generally satisfied over four years. The performance condition was satisfied in February 2014 pursuant to the terms of the Company's 2007 Equity Incentive Plan. Prior to the closing of the Company's initial public offering in November 2013, the Company had not recognized any stock-based compensation expense for the Pre-2013 RSUs, because the performance condition had not been satisfied. As the satisfaction of the performance condition became probable upon completion of the Company's initial public offering for the Pre-2013 RSUs for which the service condition had been

satisfied as of such date, the Company recorded the cumulative stock-based compensation expense for these RSUs during the three months ended December 31, 2013, using the accelerated attribution method. The remaining unrecognized stock-based compensation expense related to the Pre-2013 RSUs will be recorded over the remaining requisite service period using the accelerated attribution method.

Post-2013 RSUs, as defined and further described in Note 12—Common Stock and Stockholders' Equity, are not subject to a performance condition in order to vest. The service condition for these awards is generally satisfied over four years. The compensation expense related to these RSUs is recognized on a straight-line basis over the requisite service period.

The Company estimates the fair value of stock options granted and stock purchase rights provided under the Company's employee stock purchase plan using the Black-Scholes option pricing model on the dates of grant. Calculating the fair value using the Black-Scholes model requires various judgmental assumptions including the expected term and stock price volatility. The Company estimates the expected term of stock options granted based on the simplified method. The Company estimates the expected volatility of its common stock on the dates of grant based on a combination of the Company's historical stock price volatility and implied volatility in the Company's traded options when such information is available. When the Company's historical and implied volatility data are not available for the related awards' expected term, an average of volatility rates including the historical volatility of a group of comparable, publicly-traded companies is used. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. Expected dividend yield is zero percent as the Company has not paid and does not anticipate paying dividends on its common stock. The compensation expense related to stock options and employee stock purchase rights is recognized on a straight-line basis over the requisite service period.

The Company issues restricted stock subject to a lapsing right of repurchase to continuing employees of certain acquired companies. Since these issuances are subject to post-acquisition employment, the Company accounts for them as post-acquisition stock-based compensation expense. The grant-date fair value of restricted stock granted in connection with acquisitions is recognized as stock-based compensation expense on a straight-line basis over the requisite service period.

Stock-based compensation expense is recorded net of estimated forfeitures. The Company estimates the forfeiture rate based on historical forfeitures of stock-based awards and adjusts the rate to reflect changes in facts and circumstances, if any.

Acquisitions

The Company accounts for acquisitions of entities that include inputs and processes and have the ability to create outputs as business combinations in accordance with Accounting Standards Codification ("ASC") Topic 805 Business Combinations. The purchase price of the acquisition is allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition dates. The excess of the purchase price over those fair values is recorded as goodwill. During the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the consolidated statements of operations.

Costs to exit or restructure certain activities of an acquired company or the Company's internal operations are accounted for as one-time termination and exit costs and are accounted for separately from the business combination. Restructuring and other acquisition-related costs are expensed as incurred.

Operating and Capital Leases

The Company leases office space and data center facilities under operating leases. Certain lease agreements contain free or escalating rent payment provisions. The Company recognizes rent expense under such leases on a straight-line basis over the term of the lease. Lease renewal periods are considered on a lease-by-lease basis in determining the lease term.

The Company also enters into server and networking equipment lease arrangements with original lease terms ranging from three to four years. The classification of each lease arrangement is determined in accordance with the criteria outlined in ASC Topic 840 Leases. The Company's server and networking equipment leases typically are accounted

for as capital leases as they meet one or more of the four capital lease classification criteria. Assets acquired under capital leases are amortized over their estimated useful life. As of December 31, 2015 and 2014, the Company had capital lease obligations included in short-term and long-term capital lease obligations in the consolidated balance sheets of \$147.9 million and \$231.3 million, respectively. In the years ended December 31, 2015, 2014 and 2013, the Company recorded approximately \$8.8 million, \$10.2 million and \$7.0 million, respectively, of interest expense in relation to these capital lease arrangements.

Cash, Cash Equivalents and Investments

The Company invests its excess cash primarily in short-term fixed income securities, including government and investment-grade debt securities and money market funds. The Company classifies all liquid investments with stated maturities of three months or less from date of purchase as cash equivalents. The Company classifies all marketable securities for use in current operations, even if the security matures beyond 12 months, and presents them as short-term investments in the consolidated balance sheets. As of December 31, 2015 and 2014, the Company has recorded restricted cash balances of \$3.0 million and \$2.6 million, respectively, within prepaid expenses and other current assets and \$31.1 million and \$28.3 million, respectively, in other assets on the accompanying consolidated balance sheets based upon the term of the remaining restrictions. These restricted cash balances are primarily related to certain operating lease arrangements.

The Company determines the appropriate classification of its investments in marketable securities at the time of purchase and reevaluates such designation at each balance sheet date. The Company has classified and accounted for its marketable securities as available-for-sale. After considering the Company's capital preservation objectives, as well as its liquidity requirements, the Company may sell securities prior to their stated maturities. The Company carries its available-for-sale securities at fair value, and reports the unrealized gains and losses, net of taxes, as a component of stockholders' equity, except for unrealized losses determined to be other than temporary which are recorded as other income (expense), net. The Company determines any realized gains or losses on the sale of marketable securities on a specific identification method and records such gains and losses as a component of other income (expense), net. Interest earned on cash, cash equivalents, and marketable securities was \$9.1 million, \$1.9 million, and \$0.7 million during the years ended December 31, 2015, 2014 and 2013, respectively. These balances are recorded in other income (expense), net in the accompanying consolidated statements of operations.

The Company evaluates the investments periodically for possible other-than-temporary impairment. A decline in fair value below the amortized costs of debt securities is considered an other-than-temporary impairment if the Company has the intent to sell the security or it is more likely than not that the Company will be required to sell the security before recovery of the entire amortized cost basis. In those instances, an impairment charge equal to the difference between the fair value and the amortized cost basis is recognized in earnings. Regardless of the Company's intent or requirement to sell a debt security, impairment is considered other-than-temporary if the Company does not expect to recover the entire amortized cost basis.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentration of credit risk consist primarily of cash, cash equivalents, short-term investments and accounts receivable. The primary focus of the Company's investment strategy is to preserve capital and meet liquidity requirements. The Company's investment policy addresses the level of credit exposure by limiting the concentration in any one corporate issuer or sector and establishing a minimum allowable credit rating. To manage the risk exposure, the Company invests cash, cash equivalents and short-term investments in a variety of fixed income securities, including government and investment-grade debt securities and money market funds. The Company places its cash primarily in checking and money market accounts with reputable financial institutions. Deposits held with these financial institutions may exceed the amount of insurance provided on such deposits, if any.

The Company's accounts receivable are typically unsecured and are derived from customers around the world in different industries. The Company performs ongoing credit evaluations of its customers and maintains allowances for potential credit losses. Historically, such losses have been within management's expectations. As of December 31, 2015 and 2014, no single customer accounted for more than 10% of the Company's net accounts receivable balance. No single customer accounted for more than 10% of the Company's revenue in the years ended December 31, 2015,

2014 and 2013.

The Company's note hedge transactions, entered into in connection with the Notes, and its derivative financial instruments expose the Company to credit risk to the extent that its counterparties may be unable to meet the terms of the transactions. The Company mitigates this risk by limiting its counterparties to major financial institutions.

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Accounts Receivable, Net

The Company records accounts receivable at the invoiced amount. The Company maintains an allowance for doubtful accounts to reserve for potentially uncollectible receivable amounts. In evaluating the Company's ability to collect outstanding receivable balances, the Company considers various factors including the age of the balance, the creditworthiness of the customer, which is assessed based on ongoing credit evaluations and payment history, and the customer's current financial condition.

Property and Equipment, Net

Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life. The estimated useful lives of property and equipment are described below:

Property and Equipment	Estimated Useful Life
Computer hardware, networking and office equipment	Three to five years
Computer software	One to four years
Furniture and fixture	Five years
Leasehold improvements	Lesser of estimated useful life or remaining lease term

Costs of maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred. Upon retirement or sale, the cost and related accumulated depreciation are removed from the balance sheet and the resulting gain or loss is reflected in operating expenses.

Capitalization of Interest

Interest costs is capitalized for assets that are constructed for the Company's own internal use, this includes internally developed software and property and equipment, for the period of time to get them ready for its intended use. During the year ended December 31, 2015, the Company capitalized \$5.0 million of interest expense. Capitalized interest was not material in 2014. No interest was capitalized in 2013.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired in a business combination. Goodwill is not amortized, but is tested for impairment at least annually or more frequently if events or changes in circumstances indicate that the asset may be impaired. The Company's impairment tests are based on a single operating segment and reporting unit structure. If the carrying value of the reporting unit exceeds its fair value, the second step of the test is performed by comparing the carrying value of the goodwill in the reporting unit to its implied fair value. An impairment charge is recognized for the excess of the carrying value of goodwill over its implied fair value.

The Company conducted its annual goodwill impairment test during the fourth quarter of 2015 and determined that goodwill was not impaired. As such, no impairment charge was recorded in any of the periods presented in the accompanying consolidated financial statements.

Intangible Assets

Intangible assets are carried at cost and amortized on a straight-line basis over their estimated useful lives, which range from one to eleven years. The Company reviews identifiable amortizable intangible assets to be held and used for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Determination of recoverability is based on the lowest level of identifiable estimated undiscounted cash flows resulting from use of the asset and its eventual disposition. Measurement of any impairment loss is based on the excess of the carrying value of the asset over its fair value. There has been no impairment charges recorded in any of the periods presented in the accompanying consolidated financial statements. See Note 6—Goodwill and Intangible Assets for additional information.

Fair Value Measurements

The Financial Accounting Standards Board (the “FASB”)’s authoritative guidance on fair value measurements establishes a framework for measuring fair value and requires disclosure about the fair value measurements of assets and liabilities. This guidance requires the Company to classify and disclose assets and liabilities measured at fair value on a recurring basis, as well as fair value measurements of assets and liabilities measured on a nonrecurring basis in periods subsequent to initial measurement, in a three-tier fair value hierarchy as described below.

The guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance describes three levels of inputs that may be used to measure fair value:

Level 1—Observable inputs, such as quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Internal Use Software and Website Development Costs

The Company capitalizes certain costs incurred in developing software programs or websites for internal use. In the years ended December 31, 2015, 2014 and 2013, the Company capitalized costs totaling approximately \$92.8 million, \$79.5 million and \$35.6 million, respectively. Capitalized internal use software development costs are included in property and equipment, net. Included in the capitalized amounts above are \$50.3 million, \$40.8 million and \$13.6 million of stock-based compensation expense in the years ended December 31, 2015, 2014 and 2013, respectively.

The estimated useful life of costs capitalized is evaluated for each specific project and is one to four years. In the years ended December 31, 2015, 2014 and 2013, the amortization of capitalized costs included in cost of revenue totaled approximately \$37.8 million, \$15.2 million and \$6.7 million, respectively.

Income Taxes

The Company accounts for its income taxes using the asset and liability method whereby deferred tax assets and liabilities are determined based on temporary differences between the bases used for financial reporting and income tax reporting purposes, as well as for operating loss and tax credit carryforwards. Deferred income taxes are provided based on the enacted tax rates expected to be in effect at the time such temporary differences are expected to reverse. A valuation allowance is provided for deferred tax assets if it is more-likely-than-not that the Company will not realize those tax assets through future operations.

The Company evaluates and accounts for uncertain tax positions using a two-step approach. Recognition (step one) occurs when the Company concludes that a tax position, based solely on its technical merits, is more-likely-than-not to

be sustainable upon examination. Measurement (step two) determines the amount of benefit that is greater than 50% likely to be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. De-recognition of a tax position that was previously recognized would occur when the Company subsequently determines that a tax position no longer meets the more-likely-than-not threshold of being sustained.

Foreign Currency

The functional currency of the Company's foreign subsidiaries is generally the local currency. The financial statements of these subsidiaries are translated into U.S. dollars using period-end rates of exchange for assets and liabilities, historical rates of exchange for equity, and average rates of exchange for revenue and expenses. Translation gains (losses) are recorded in accumulated other comprehensive income (loss) as a component of stockholders' equity. 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 are recorded in other income (expense), net in the accompanying consolidated statements of operations.

Advertising Costs

Advertising costs are expensed when incurred and are included in sales and marketing expense in the accompanying consolidated statements of operations. Advertising expense totaled \$119.7 million, \$46.6 million and \$3.1 million for the years ended December 31, 2015, 2014 and 2013 respectively.

Comprehensive Loss

Comprehensive loss consists of two components, net loss and other comprehensive income (loss). Other comprehensive income (loss) refers to gains and losses that are recorded as an element of stockholders' equity and are excluded from net loss. The Company's other comprehensive income (loss) is comprised of unrealized gains or losses on available-for-sale securities, net of tax, and foreign currency translation adjustment.

Recent Accounting Pronouncements

In May 2014, the 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. The Company has not yet selected a transition method and is evaluating the impact of adopting this new accounting standard update 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. This guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 and can be applied either prospectively or retrospectively to all awards outstanding as of the beginning of the earliest annual period presented as an adjustment to opening retained earnings. Early adoption is permitted. Adoption of this new accounting standard update is expected to have 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 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, but the guidance must be applied as of the beginning of the fiscal year containing the adoption date. Adoption of this new accounting standard update is not expected to have a material 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. This guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. Adoption of

this new accounting standard update is not expected to have a material impact on the Company's financial statements.

In 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. This guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. Adoption of this new accounting standard update is not expected to have a material impact on the Company's financial statements.

In November 2015, the FASB issued a new accounting standard update on simplifying the presentation of deferred income taxes. The new guidance requires that the deferred tax liabilities and assets be classified as noncurrent in the balance sheet. 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 early adopted this guidance prospectively for the year ended December 31, 2015. The adoption of this guidance resulted in a reclassification of the net current deferred tax assets to noncurrent deferred tax assets on the Company's consolidated balance sheet at December 31, 2015. No prior periods were retroactively adjusted.

Note 3. Cash, Cash Equivalents and Short-term Investments

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

	December 31, 2015	December 31, 2014
Cash and cash equivalents:		
Cash	\$300,363	\$147,848
Money market funds	141,700	882,443
U.S. government and agency securities including treasury bills	—	271,418
Corporate notes, certificates of deposit and commercial paper	469,408	209,015
Total cash and cash equivalents	\$911,471	\$1,510,724
Short-term investments:		
U.S. government and agency securities including treasury bills	\$1,156,418	\$1,009,541
Corporate notes, certificates of deposit and commercial paper	1,427,459	1,101,613
Total short-term investments	\$2,583,877	\$2,111,154

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 as of December 31, 2015 and 2014 (in thousands):

	December 31, 2015			
	Gross Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Aggregated Estimated Fair Value
U.S. government and agency securities including				
treasury bills	\$1,158,479	\$ 6	\$ (2,067)	\$1,156,418
Corporate notes, certificates of deposit and				
commercial paper	1,429,374	21	(1,936)	1,427,459

Total available-for-sale securities classified as				
short-term investments	\$2,587,853	\$ 27	\$ (4,003)	\$2,583,877
December 31, 2014				
	Gross Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Aggregated Estimated Fair Value
U.S. government and agency securities including				
treasury bills	\$1,009,827	\$ 8	\$ (294)	\$1,009,541
Corporate notes, certificates of deposit and				
commercial paper	1,102,275	4	(666)	1,101,613
Total available-for-sale securities classified as				
short-term investments	\$2,112,102	\$ 12	\$ (960)	\$2,111,154

The available-for-sale securities classified as cash and cash equivalents on the consolidated balance sheets are not included in the tables above as the gross unrealized gains and losses were immaterial for each period and their carrying value approximates fair value because of the short maturity period of these instruments.

The contractual maturities of securities classified as available-for-sale as of December 31, 2015 were as follows (in thousands):

	December 31, 2015 Aggregated Estimated Fair Value
Due within one year	\$ 1,912,531
Due after one year through two years	671,346
Total	\$ 2,583,877

There were no securities in a continuous loss position for 12 months or longer as of December 31, 2015 and 2014.

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 4. 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 December 31, 2015 and 2014 based on the three-tier fair value hierarchy (in thousands):

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents:				
Money market funds	\$ 141,700	\$—	\$ —	\$141,700
Commercial paper	—	419,110	—	419,110
Certificates of deposit	—	50,298	—	