TWITTER, INC.
Form 10-Q
August 07, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 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 of incorporation or organization)	(I.R.S. Employer Identification No.)

1355 Market Street, Suite 900

San Francisco, California 94103

(Address of principal executive offices and Zip Code)

(415) 222-9670

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The number of shares of the registrant's common stock outstanding as of July 28, 2015 was 676,304,418.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which statements involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of these words or other similar terms or expressio that concern our expectations, strategy, plans or intentions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

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

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

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, operating results, cash flows or prospects. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties and other factors described in the section titled “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. We cannot assure you that the results, events and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements.

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.

NOTE REGARDING KEY METRICS

We review a number of metrics, including monthly active users, or MAUs, changes in ad engagements and changes in cost per ad engagement, to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans and make strategic decisions. See the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Metrics" for a discussion of how we calculate MAUs, changes in ad engagements and changes in cost per ad engagement.

The numbers of active users presented in this Quarterly Report on Form 10-Q are based on internal company data. While these numbers are based on what we believe to be reasonable estimates for the applicable period of measurement, there are inherent challenges in measuring usage and user engagement across our large user base around the world. For example, there are a number of false or spam accounts in existence on our platform. We have performed an internal review of a sample of accounts and estimate that false or spam accounts represented less than 5% of our MAUs as of December 31, 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 Quarterly Report on Form 10-Q. We treat multiple accounts held by a single person or organization as multiple users for purposes of calculating our active users because we permit people and organizations to have more than one account. Additionally, some accounts used by organizations are used by many people within the organization. As such, the calculations of our active users may not accurately reflect the actual number of people or organizations using our platform.

Our metrics are also affected by applications that automatically contact our servers for regular updates with no discernable 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 discernable additional user-initiated action. As such, the calculations of MAUs presented in this Quarterly Report on Form 10-Q may be affected as a result of this activity.

In addition, our data regarding user geographic location for purposes of reporting the geographic location of our MAUs is based on the IP address associated with the account when a user initially registered the account on Twitter. The IP address 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 data from Google Analytics, which measures unique visitors to our properties.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

TWITTER, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

(Unaudited)

	June 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$883,307	$1,510,724
Short-term investments	2,677,263	2,111,154
Accounts receivable, net of allowance for doubtful accounts of $8,229 and $5,507 as of June 30, 2015 and December 31, 2014, respectively	475,204	418,454
Prepaid expenses and other current assets	234,653	215,521
Total current assets	4,270,427	4,255,853
Property and equipment, net	651,017	557,019
Intangible assets	156,352	105,011
Goodwill	1,102,193	622,570
Other assets	50,345	42,629
Total assets	$6,230,334	$5,583,082
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$51,614	$53,241
Accrued and other current liabilities	274,621	228,233
Capital leases, short-term	98,606	112,320
Total current liabilities	424,841	393,794
Convertible notes	1,414,896	1,376,020
Capital leases, long-term	83,381	118,950
Deferred and other long-term tax liabilities, net	31,768	24,706
Other long-term liabilities	44,264	43,209
Total liabilities	1,999,150	1,956,679
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, $0.000005 par value-- 200,000 shares authorized; none issued and outstanding	—	—
Common stock, $0.000005 par value-- 5,000,000 shares authorized; 674,379 and	3	3

642,385 shares issued and outstanding as of June 30, 2015 and December 31, 2014, respectively		
Additional paid-in capital	6,135,566	5,208,870
Accumulated other comprehensive loss	(32,834)	(10,024)
Accumulated deficit	(1,871,551)	(1,572,446)
Total stockholders' equity	4,231,184	3,626,403
Total liabilities and stockholders' equity	$6,230,334	$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)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue	$502,383	$312,166	$938,322	$562,658
Costs and expenses				
Cost of revenue	167,623	100,027	311,098	185,530
Research and development	198,907	177,095	388,653	326,486
Sales and marketing	201,948	140,261	385,505	246,496
General and administrative	64,909	44,694	130,686	83,428
Total costs and expenses	633,387	462,077	1,215,942	841,940
Loss from operations	(131,004)	(149,911)	(277,620)	(279,282)
Interest expense	(24,437)	(2,654)	(48,756)	(5,756)
Other income (expense), net	(695)	2,324	8,430	3,657
Loss before income taxes	(156,136)	(150,241)	(317,946)	(281,381)
Benefit from income taxes	(19,473)	(5,599)	(18,841)	(4,377)
Net loss	$(136,663)	$(144,642)	$(299,105)	$(277,004)
Net loss per share attributable to common stockholders:				
Basic	$(0.21)	$(0.24)	$(0.46)	$(0.47)
Diluted	$(0.21)	$(0.24)	$(0.46)	$(0.47)
Weighted-average shares used to compute net loss per share attributable to common stockholders:				
Basic	655,721	595,607	648,143	587,760
Diluted	655,721	595,607	648,143	587,760

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

TWITTER, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Net loss	$(136,663)	$(144,642)	$(299,105)	$(277,004)
Other comprehensive income (loss):				
Unrealized gain (loss) on investments in available-for-sale securities, net of tax	(515)	(47)	55	(78)
Foreign currency translation adjustment	10,637	542	(22,865)	600
Net change in accumulated other comprehensive loss	10,122	495	(22,810)	522
Comprehensive loss	$(126,541)	$(144,147)	$(321,915)	$(276,482)

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

TWITTER, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30, 2015	2014
Cash flows from operating activities		
Net loss	$(299,105)	$(277,004)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	143,913	85,582
Stock-based compensation expense	357,948	284,780
Amortization of discount on convertible notes	33,644	—
Provision for bad debt	3,345	1,436
Deferred income tax benefit	(24,306)	(7,737)
Other non-cash adjustments	(5,197)	666
Changes in assets and liabilities, net of assets acquired and liabilities assumed from acquisitions:		
Accounts receivable	(43,944)	(37,213)
Prepaid expenses and other assets	(7,861)	(17,229)
Accounts payable	(11,437)	1,407
Accrued and other liabilities	35,160	89,692
Net cash provided by operating activities	182,160	124,380
Cash flows from investing activities		
Purchases of property and equipment	(160,340)	(94,077)
Purchases of marketable securities	(2,235,497)	(1,039,014)
Proceeds from maturities of marketable securities	1,342,137	1,009,926
Proceeds from sales of marketable securities	335,261	168,138
Changes in restricted cash	(3,797)	(11,716)
Business combinations, net of cash acquired	(26,300)	(132,496)
Purchases of cost method investments and other	(7,000)	(400)
Net cash used in investing activities	(755,536)	(99,639)
Cash flows from financing activities		
Taxes paid related to net share settlement of equity awards	(6,480)	(16,168)
Repayments of capital lease obligations	(62,934)	(42,886)
Proceeds from exercise of stock options	6,962	15,907
Proceeds from issuances of common stock under employee stock purchase plan	21,600	21,224
Other financing activities	—	(1,162)
Net cash used in financing activities	(40,852)	(23,085)
Net increase (decrease) in cash and cash equivalents	(614,228)	1,656
Foreign exchange effect on cash and cash equivalents	(13,189)	2,310
Cash and cash equivalents at beginning of period	1,510,724	841,010
Cash and cash equivalents at end of period	$883,307	$844,976
Supplemental disclosures of non-cash investing and financing activities		

Common stock issued in connection with acquisitions	$516,538	$51,846
Equipment purchases under capital leases	$10,544	$47,739
Changes in accrued equipment purchases	$9,087	$43,597

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

TWITTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Description of Business and Summary of Significant Accounting Policies

Twitter, Inc. (“Twitter” or the “Company”) was incorporated in Delaware in April 2007, and is headquartered in San Francisco, California. Twitter offers products and services for users, advertisers, developers and platform and data partners.

Basis of Presentation

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”). The unaudited interim consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and reflect, in management’s opinion, all adjustments of a normal, recurring nature that are necessary for the fair statement of the Company’s financial position, results of operations and cash flows for the interim periods, but are not necessarily indicative of the results expected for the full fiscal year or any other period. Certain prior period amounts have been reclassified to conform to the current period presentation.

The accompanying interim consolidated financial statements and these related notes should be read in conjunction with the consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

Use of Estimates

The preparation of the Company’s consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, as well as related disclosure of contingent assets and liabilities. The Company bases its estimates on past experience and other assumptions that the Company believes are reasonable under the circumstances, and the Company evaluates these estimates on an ongoing basis. Actual results could differ materially from the Company’s estimates. To the extent that there are material differences between these estimates and actual results, the Company’s financial condition or operating results will be affected.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued a new accounting standard update on revenue recognition from contracts with customers. The new guidance will replace all current U.S. GAAP guidance on this topic and eliminate all 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.

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

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

	June 30, 2015	December 31, 2014
Cash and cash equivalents:		
Cash	$205,861	$147,848
Money market funds	284,532	882,443
U.S. government and agency securities including treasury bills	—	271,418
Corporate notes, certificates of deposit and commercial paper	392,914	209,015
Total cash and cash equivalents	$883,307	$1,510,724
Short-term investments:		
U.S. government and agency securities including treasury bills	$ 1,264,741	$ 1,009,541
Corporate notes, certificates of deposit and commercial paper	1,412,522	1,101,613
Total short-term investments	$2,677,263	$2,111,154

Marketable securities are classified as available-for-sale for use in current operations and are presented as short-term investments in the consolidated balance sheets. The contractual maturities of securities classified as available-for-sale as of June 30, 2015 were as follows (in thousands):

June 30, 2015

Due within one year	$	1,951,083
Due after one year through two years		726,180
Total	$	2,677,263

The following tables summarize unrealized gains and losses related to available-for-sale securities classified as short-term investments on the Company's consolidated balance sheets (in thousands):

	June 30, 2015			
	Gross Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Aggregated Estimated Fair Value
U.S. Government and agency securities including treasury bills	$1,264,808	$ 166	$ (233)	$1,264,741
Corporate notes, certificates of deposit and commercial paper	1,413,358	43	(879)	1,412,522
Total available-for-sale securities classified as short-term investments	$2,678,166	$ 209	$ (1,112)	$2,677,263

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	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

There were no securities in a continuous loss position for 12 months or longer as of June 30, 2015 and December 31, 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 3. Fair Value Measurements

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

The following tables set forth the fair value of the Company's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2015 and December 31, 2014 based on the three-tier fair value hierarchy (in thousands):

	June 30, 2015			
	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents:				
Money market funds	$284,532	$—	$ —	$284,532
Commercial paper	—	376,653	—	376,653
Certificates of deposit	—	16,261	—	16,261
Short-term investments:				
Treasury bills	29,365	—	—	29,365
U.S. government securities	—	553,237	—	553,237
Agency securities	—	682,139	—	682,139

Corporate notes	—	741,097	—	741,097
Commercial paper	—	301,910	—	301,910
Certificates of deposit	—	369,515	—	369,515
Other current assets:				
Foreign currency forward contracts	—	975	—	975
Liabilities				
Other current liabilities:				
Foreign currency forward contracts	—	(979)	—	(979)
Total	$313,897	$3,040,808	$ —	$3,354,705

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents:				
Money market funds	$882,443	$—	$ —	$882,443
Treasury bills	73,525	—	—	73,525
U.S. government securities	—	157,895	—	157,895
Agency securities	—	39,998	—	39,998
Corporate notes	—	13,684	—	13,684
Commercial paper	—	185,321	—	185,321
Certificates of deposit	—	10,010	—	10,010
Short-term investments:				
Treasury bills	167,575	—	—	167,575
U.S. government securities	—	746,128	—	746,128
Agency securities	—	95,838	—	95,838
Corporate notes	—	551,604	—	551,604
Commercial paper	—	300,589	—	300,589
Certificates of deposit	—	249,420	—	249,420
Total	$1,123,543	$2,350,487	$ —	$3,474,030

In 2014, the Company issued $935.0 million principal amount of 0.25% convertible senior notes due in 2019 (the "2019 Notes") and $954.0 million principal amount of 1.00% convertible senior notes due in 2021 (the "2021 Notes" and together with the 2019 Notes, the "Notes") in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. Refer to Note 8 – Convertible Senior Notes for further details on the Notes. The estimated fair value of the 2019 Notes and 2021 Notes based on a market approach as of June 30, 2015 was approximately $836.9 million and $848.9 million respectively, which represents a Level 2 valuation. The estimated fair value was determined based on the estimated or actual bids and offers of the Notes in an over-the-counter market on June 30, 2015.

Derivative Financial Instruments

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

The Company recognizes these derivative instruments as either assets or liabilities in the consolidated balance sheets at fair value based on a Level 2 valuation. The Company records changes in the fair value (i.e., gains or losses) of the derivatives as other income (expense), net in the consolidated statements of operations. The notional principal of foreign currency forward contracts outstanding was equivalent to $265.6 million at June 30, 2015. There were no outstanding foreign currency forward contracts as of December 31, 2014.

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

	Balance Sheet Location	June 30, 2015	December 31, 2014
Assets			
Foreign currency forward contracts not designated as hedging instruments	Other current assets	$975	—
Liabilities			
Foreign currency forward contracts not designated as hedging instruments	Other current liabilities	979	—
Total		$(4)	$ —

The realized gains and losses on the foreign currency forward contracts were not significant in the three and six months ended June 30, 2015. The Company did not have any derivative financial instruments in the three and six months ended June 30, 2014.

Note 4. Property and Equipment, Net

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

	June 30, 2015	December 31, 2014
Property and equipment, net		
Equipment	$647,550	$584,561
Furniture and leasehold improvements	212,633	131,851
Capitalized software	140,574	82,052
Construction in progress	95,773	89,806
Total	1,096,530	888,270
Less: Accumulated depreciation and amortization	(445,513)	(331,251)
Property and equipment, net	$651,017	$557,019

Note 5. Goodwill and Intangible Assets

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

Goodwill	
Balance as of December 31, 2014	$622,570
TellApart acquisition	394,989
Other acquisitions	84,567
Foreign currency translation adjustment	67
Balance as of June 30, 2015	$1,102,193

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

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

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
June 30, 2015:			
Patents and developed technologies	$135,752	$ (41,710)	$94,042
Publisher and advertiser relationships	75,300	(15,410)	59,890
Assembled workforce	1,960	(1,586)	374
Other intangible assets	3,200	(1,154)	2,046
Total	$216,212	$ (59,860)	$156,352
December 31, 2014:			
Patents and developed technologies	$105,052	$ (23,165)	$81,887
Publisher and advertiser relationships	32,000	(9,831)	22,169
Assembled workforce	1,960	(1,457)	503
Other intangible assets	1,100	(648)	452
Total	$140,112	$ (35,101)	$105,011

Amortization expense associated with intangible assets for the three months ended June 30, 2015 and 2014 was $14.0 million and $8.1 million, respectively, and for the six months ended June 30, 2015 and 2014 was $24.8 million and $14.3 million, respectively.

Estimated future amortization expense as of June 30, 2015 is as follows (in thousands):

Remainder of 2015	$27,261
2016	42,880
2017	26,874
2018	20,241
2019	12,647
Thereafter	26,449
Total	$156,352

Note 6. Accrued and Other Current Liabilities

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

	June 30, 2015	December 31, 2014
Accrued compensation	$71,796	$68,000
Accrued publisher payments	48,257	27,996
Deferred revenue	22,274	18,679
Accrued sales and marketing expenses	13,573	25,264
Accrued other	118,721	88,294
Total	$274,621	$228,233

Note 7. Acquisitions

In May 2015, the Company completed its acquisition of TellApart, Inc. ("TellApart"), a privately held marketing technology company with unique retargeting capabilities headquartered in Burlingame, California. The acquisition is expected to bring the power of retargeting to the Company to help advertisers reach their users. Under the terms of the acquisition, the Company agreed to pay $22.6 million in cash and issue approximately 12.2 million shares of its common stock in consideration for all of the issued and outstanding shares of capital stock of TellApart. In addition, the Company agreed to issue an aggregate of 1.2 million shares of the Company's common stock and 1.3 million stock options as a result of assumed TellApart equity awards held by individuals, who will continue to provide services to the Company.

The acquisition of TellApart has been accounted for as a business combination. The fair value of assets acquired and liabilities assumed at the acquisition date was based on a preliminary valuation and estimates and assumptions that are subject to change within the measurement period.

The fair value of the total consideration of $479.1 million (paid in shares of the Company's common stock having a total fair value of $456.5 million and cash of $22.6 million) for the acquisition of TellApart was allocated to the acquired tangible and intangible assets and assumed liabilities based on their estimated fair values at closing as follows: $21.4 million to developed technology, $43.3 million to advertiser relationships, $2.1 million to trade name, $29.6 million to cash acquired, $19.7 million to account receivables acquired, which are expected to be substantially collected, $2.2 million to other tangible assets acquired, $11.8 million to liabilities assumed, $22.4 million to deferred tax liability recorded, and the excess $395.0 million of the purchase price over the fair value of net assets acquired was recorded as goodwill. This goodwill is primarily attributable to the expected synergies from potential monetization opportunities and from integrating the retargeting technologies into the Company's mobile platforms, and the value of acquired talent. Goodwill is not deductible for U.S. income tax purposes. Developed technology, advertiser relationships and trade names will be amortized on a straight-line basis over their estimated useful life of 12 to 72 months. The discounted cash flow method, which calculates the fair value of an asset based on the value of cash flows that the asset is expected to generate in the future, was used to estimate the fair value of the amortizable intangible assets acquired.

During the six months ended June 30, 2015, the Company acquired three other companies, which were accounted for as business combinations. The total purchase price of $93.4 million (paid in shares of the Company's common stock having a total fair value of $60.1 million and cash of $33.3 million) for these acquisitions was allocated as follows: $7.8 million to developed technologies, $2.8 million to net tangible assets acquired based on their estimated fair value on the acquisition date, $1.8 million to deferred tax liability, and the excess $84.6 million of the purchase price over the fair value of net assets acquired to goodwill. Tax deductible goodwill resulting from certain of these acquisitions was $4.1 million. The remaining goodwill is not tax deductible for U.S. income tax purposes. Developed technologies will be amortized on a straight-line basis over their estimated useful lives of 12 to 36 months.

In connection with all of the acquisitions completed during the six months ended June 30, 2015, the Company also agreed to pay cash and issue shares its common stock with a total fair value up to $102.9 million, which is to be paid to certain employees of the acquired entities contingent upon their continued employment with the Company. The Company will recognize compensation expense related to the equity consideration over the requisite service periods of up to 48 months from the respective acquisition dates on a straight-line basis. In addition, the Company will recognize approximately $36.8 million of stock-based compensation expense in relation to assumed stock options over the remaining requisite service periods of up to 45 months from the respective acquisition dates on a straight-line basis, excluding the fair value of the assumed stock options that was allocated and recorded as part of the purchase price for the portion of the service period completed prior to the closing of the applicable acquisition.

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

Note 8. Convertible Senior Notes

In September 2014, the Company issued $900.0 million principal amount of 2019 Notes and $900.0 million principal amount of 2021 Notes in a private placement to qualified institutional buyers pursuant to Rule144A under the Securities Act of 1933, as amended. In October 2014, pursuant to the exercise of the overallotment option by the initial purchasers, the Company issued an additional $35.0 million principal amount of 2019 Notes and $54.0 million principal amount of 2021 Notes. The total net proceeds from this offering were approximately $1.86 billion, after deducting $28.3 million of initial purchasers' discount and $0.5 million debt issuance costs in connection with the 2019 Notes and the 2021 Notes.

The interest rates are fixed at 0.25% and 1.00% per annum, respectively, and are payable semi-annually in arrears on March 15 and September 15 of each year, commencing on March 15, 2015. For the three and six months ended June 30, 2015, the Company recognized $1.3 million and $2.6 million, respectively, of interest expense related to the amortization of initial purchasers' discount and debt issuance costs, and $3.0 million and $6.0 million, respectively, of accrued coupon interest expense.

Each $1,000 of principal of these Notes will initially be convertible into 12.8793 shares of the Company's common stock, which is equivalent to an initial conversion price of approximately $77.64 per share, subject to adjustment upon the occurrence of specified events. Holders of these Notes may convert their Notes at their option at any time until close of business on the second scheduled trading day immediately preceding the relevant maturity date which is March 15, 2019 for the 2019 Notes and March 15, 2021 for the 2021 Notes. Further, holders of each of these Notes may convert their Notes at their option prior to the respective dates above, only under the following circumstances:

1) during any calendar quarter commencing after the calendar quarter ending on December 31, 2014 (and only during such calendar quarter), if the last reported sale price of Twitter's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price for the relevant series of notes on each applicable trading day;
2) during the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price (as defined in the related Indenture) per $1,000 principal amount of 2019 Notes or 2021 Notes, as applicable, for each trading day of the measurement period was less than 98% of the product of the last reported sale price of Twitter's common stock and the conversion rate for the Notes of the relevant series on each such trading day; or
3) upon the occurrence of certain specified corporate events.

Upon conversion of the 2019 Notes and 2021 Notes, the Company will pay or deliver, as the case may be, cash, shares of its common stock or a combination of cash and shares of its common stock, at the Company’s election. If the Company satisfies its conversion obligation solely in cash or through payment and delivery, as the case may be, of a combination of cash and shares of its common stock, the amount of cash and shares of common stock, if any, due upon conversion will be based on a daily conversion value (as described herein) calculated on a proportionate basis for each trading day in a 30 trading day observation period.

If a fundamental change (as defined in the relevant indenture governing the applicable series of Notes) occurs prior to the maturity date, holders of the 2019 Notes and 2021 Notes may require the Company to repurchase all or a portion of their notes for cash at a repurchase price equal to 100% of the principal amount of the Notes, plus any accrued and unpaid interest to, but excluding, the repurchase date. In addition, if specific corporate events occur prior to the applicable maturity date, the Company will be required to increase the conversion rate for holders who elect to convert their Notes in certain circumstances.

In accordance with accounting guidance on embedded conversion features, the Company valued and bifurcated the conversion option associated with the 2019 Notes and 2021 Notes from the respective host debt instrument, which is referred to as debt discount, and initially recorded the conversion option of $222.8 million for the 2019 Notes and $283.3 million for the 2021 Notes in stockholders’ equity. The resulting debt discounts on the 2019 Notes and 2021 Notes are being amortized to interest expense at an effective interest rate of 5.75% and 6.25%, respectively, over the contractual terms of the Notes. The Company allocated $0.1 million of debt issuance costs to the equity component, and the remaining debt issuance costs of $0.4 million are being amortized to interest expense.

For the three and six months ended June 30, 2015, the Company recognized $18.6 million and $36.5 million, respectively, of interest expense related to the amortization of the debt discount. As of June 30, 2015, the net carrying value, net of the initial purchasers’ discount and debt discount, of 2019 Notes and 2021 Notes was $731.1 million and $683.8 million, respectively.

The Notes consisted of the following (in thousands):

	June 30, 2015		December 31, 2014	
	2019 Notes	2021 Notes	2019 Notes	2021 Notes
Principal amounts:				
Principal	$935,000	$954,000	$935,000	$954,000
Unamortized initial purchasers' discount and debt discount [1]	(203,897)	(270,207)	(225,104)	(287,876)
Net carrying amount	$731,103	$683,793	$709,896	$666,124
Carrying amount of the equity component [2]	$222,826	$283,283	$222,826	$283,283

(1) Included in the consolidated balance sheets within convertible notes and amortized over the remaining lives of the Notes.

(2) Included in the consolidated balance sheets within additional paid-in capital.

As of June 30, 2015, the remaining life of the 2019 Notes and 2021 Notes is approximately 50 months and 74 months, respectively.

Concurrently with the offering of these Notes in September and October 2014, the Company entered into convertible note hedge transactions with certain bank counterparties whereby the Company has the option to purchase initially (subject to adjustment for certain specified events) a total of approximately 24.3 million shares of its common stock at a price of approximately $77.64 per share. The total cost of the convertible note hedge transactions was $407.2 million. In addition, the Company sold warrants to certain bank counterparties whereby the holders of the warrants have the option to purchase initially (subject to adjustment for certain specified events) a total of approximately 24.3 million shares of the Company's common stock at a price of $105.28. The Company received $289.3 million in cash proceeds from the sale of these warrants.

Taken together, the purchase of the convertible note hedges and the sale of warrants are intended to offset any actual dilution from the conversion of these Notes and to effectively increase the overall conversion price from $77.64 to $105.28 per share. As these transactions meet certain accounting criteria, the convertible note hedges and warrants are recorded in stockholders' equity and are not accounted for as derivatives. The net cost incurred in connection with the convertible note hedge and warrant transactions was recorded as a reduction to additional paid-in capital in the consolidated balance sheet.

Note 9. Net Loss per Share

Basic net loss per share is computed by dividing total net loss attributable to common stockholders by the weighted-average common shares outstanding. The weighted-average common shares outstanding is adjusted for shares subject to repurchase such as unvested restricted stock granted to employees in connection with acquisitions, contingently returnable shares and escrowed shares supporting indemnification obligations that are issued in connection with acquisitions and unvested stock options exercised.

Diluted net loss per share is computed by dividing the net loss attributable to common stockholders by the weighted-average number of common shares outstanding including potential dilutive common stock instruments. In the three and six months ended June 30, 2015 and 2014, the Company's potential common stock instruments such as stock options, Restricted Stock Units ("RSUs"), shares to be purchased under the 2013 Employee Stock Purchase Plan ("ESPP"), shares subject to repurchases, conversion feature of the Notes and the warrants were not included in the computation of diluted loss per share as the effect of including these shares in the calculation would have been anti-dilutive.

The following table presents the calculation of basic and diluted net loss per share for periods presented (in thousands, except per share data).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net loss	$(136,663)	$(144,642)	$(299,105)	$(277,004)
Basic shares:				
Weighted-average common shares outstanding	663,555	604,054	656,291	596,399
Weighted-average restricted stock subject to repurchase	(7,834)	(8,447)	(8,148)	(8,639)
Weighted-average shares used to compute basic net loss per share	655,721	595,607	648,143	587,760
Diluted shares:				
Weighted-average shares used to compute diluted net loss per share	655,721	595,607	648,143	587,760
Net loss per share attributable to common stockholders:				
Basic	$(0.21)	$(0.24)	$(0.46)	$(0.47)
Diluted	$(0.21)	$(0.24)	$(0.46)	$(0.47)

The following number of potential shares of the Company’s common stock at the end of each period were excluded from the calculation of diluted net loss per share attributable to common stockholders because their effect would have been anti-dilutive for the periods presented (in thousands):

	Three and Six Months Ended June 30,	
	2015	2014
RSUs	55,419	81,421
Warrants	24,329	—
Stock options	18,315	27,470
Shares subject to repurchase	8,950	8,877
Employee stock purchase plan	1,437	1,147

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

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

Note 10. Stockholders' Equity

Restricted Common Stock

The Company has granted restricted common stock to certain continuing employees in connection with the acquisitions. Vesting of this stock is dependent on the respective employee's continued employment at the Company during the requisite service period, which is generally two to four years from the issuance date, and the Company has the right to repurchase the unvested shares upon termination of employment. The fair value of the restricted common stock issued to employees is recorded as compensation expense on a straight-line basis over the requisite service period.

The activities for the restricted common stock issued to employees for the six months ended June 30, 2015 are summarized as follows (in thousands, except per share data):

	Number of Shares	Weighted-Average Grant-Date Fair Value Per Share
Unvested restricted common stock at December 31, 2014	4,955	$ 25.62
Granted	2,466	$ 40.00
Vested	(1,120)	$ 23.49
Canceled	(9)	$ 13.06
Unvested restricted common stock at June 30, 2015	6,292	$ 31.65

As of June 30, 2015, the total compensation cost related to unvested restricted common stock not yet recognized was $147.7 million. This amount is expected to be recognized over a weighted-average period of 2.6 years.

Equity Incentive Plans

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

Options granted under the Company's equity incentive plans generally expire 10 years after the grant date. The Company issues new shares to satisfy stock option exercises. RSUs are agreements to issue shares of the Company's common stock at the time the award vests. Options and RSUs issued to participants under the equity incentive plans vest ratably over four years or subject to tailored vesting schedules including vesting that starts several quarters after the grant date and contingent upon employment or services on the vesting date. In addition, employees generally sell a portion of the shares that they receive upon vesting of RSUs in order to satisfy any tax withholding requirements.

Employee Stock Purchase Plan

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

During the six months ended June 30, 2015, employees purchased an aggregate of 0.7 million shares under the ESPP at a price of $31.07 per share. During the three months ended June 30, 2015 and 2014, the Company recorded $4.2 million and $10.5 million, respectively, and recorded $8.1 million and $16.7 million during the six months ended June 30, 2015 and 2014, respectively, of stock-based compensation expense related to the ESPP. As of June 30, 2015, the total compensation costs related to the current ESPP plans not yet recognized were $16.4 million. This amount is expected to be recognized over a weighted-average period of 0.6 years.

Stock Option Activity

The number of stock options outstanding was 18.3 million and 20.4 million as of June 30, 2015 and December 31, 2014, respectively. The reduction in outstanding options during the six months ended June 30, 2015 was mainly due to exercises of stock options offset by the issuance of 1.4 million stock options as part of acquisitions with a weighted-average exercise price of $2.89. The total intrinsic values of stock options exercised during the three months ended June 30, 2015 and 2014 were $39.4 million and $403.2 million, respectively and $140.6 million and $537.1 million in the six months ended June 30, 2015 and 2014, respectively.

As of June 30, 2015, the total compensation costs related to stock options not yet recognized was $49.9 million. This amount is expected to be recognized over a weighted-average period of 2.5 years.

RSU Activity

The following table summarizes the activity related to the Company's RSUs for the six months ended June 30, 2015. For purposes of this table, vested RSUs represent the shares for which the service condition had been fulfilled as of each respective date (in thousands, except per share data):

	RSUs Outstanding	
	Shares	Weighted-Average Grant-Date Fair Value Per Share
Unvested and outstanding at December 31, 2014	64,135	$ 29.08
Granted	9,573	$ 43.88
Vested	(12,285)	$ 26.84
Canceled	(6,004)	$ 28.49
Unvested and outstanding at June 30, 2015	55,419	$ 32.20

The fair value as of the respective vesting dates of RSUs that vested during the three months ended June 30, 2015 and 2014 was $248.1 million and $260.9 million, respectively and $504.4 million and $1.22 billion during the six months ended June 30, 2015 and 2014, respectively.

As of June 30, 2015, the total compensation cost related to unvested RSUs not yet recognized was $1.29 billion. This amount is expected to be recognized over a weighted-average period of 2.8 years.

Stock-Based Compensation Expense

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Cost of revenue	$10,486	$13,869	$23,372	$23,700
Research and development	103,121	92,493	206,157	170,811
Sales and marketing	39,607	37,547	82,265	65,348
General and administrative	21,929	14,502	46,154	24,921
Total	$175,143	$158,411	$357,948	$284,780

The Company capitalized $13.3 million and $8.8 million of stock-based compensation expense associated with the cost for developing software for internal use in the three months ended June 30, 2015 and 2014, respectively, and $29.8 million and $15.5 million in the six months ended June 30, 2015 and 2014, respectively.

Note 11. Income Taxes

The Company is subject to taxation in the United States and various state and foreign jurisdictions. Earnings from non-US activities are subject to local country income tax. The material jurisdictions in which the Company is subject to potential examination by taxing authorities include the United States, California and Ireland. The Company is currently under a Federal income tax examination by the Internal Revenue Service (IRS) for tax years 2011, 2012 and 2013 and under examination in California for tax years 2010 and 2011. The Company believes that adequate amounts have been reserved in these jurisdictions. The Company does not provide for federal income taxes on the undistributed earnings of its foreign subsidiaries as such earnings are to be reinvested indefinitely outside the U.S. The Company computes its quarterly income tax provision by using a forecasted annual effective tax rate and adjusts for any discrete items arising during the quarter.

The Company recorded an income tax benefit of $19.5 million and $5.6 million for the three months ended June 30, 2015 and 2014, respectively, and an income tax benefit of $18.8 million and $4.4 million for the six months ended June 30, 2015 and 2014, respectively. The income tax benefit is higher in the three and six months ended June 30, 2015 compared to the same periods last year, primarily due to the increased deferred income tax benefits arising from acquisitions, partially offset by increased foreign income tax expenses. As of June 30, 2015, based on the available objective evidence, management believes it is more likely than not that the tax benefits of the U.S. losses incurred during the six months ended June 30, 2015 will not be realized by the end of the 2015 fiscal year. Accordingly, the Company did not record the tax benefits of the U.S. losses incurred during the six months ended June 30, 2015. The primary difference between the effective tax rate and the federal statutory tax rate relates to the valuation allowances on the Company's net operating losses and foreign tax rate differences.

During the three and six months ended June 30, 2015, the amount of gross unrecognized tax benefits increased by $14.2 million and $37.9 million, respectively. As of June 30, 2015, the Company has $220.3 million of unrecognized tax benefits which, if recognized, will not affect the annual effective tax rate as these unrecognized tax benefits would increase deferred tax assets which would be subject to a full valuation allowance.

Note 12. Commitments and Contingencies

Credit Facility

The Company entered into a revolving credit agreement with certain lenders in 2013, which provided for a $1.0 billion revolving unsecured credit facility maturing on October 22, 2018. Loans under the credit facility bear interest, at the Company's 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 the total leverage ratio for the preceding four fiscal quarter period. The Company is obligated to pay other customary fees for a credit facility of this size and type, including an upfront fee and an unused commitment fee. Obligations under the credit facility are guaranteed by one of the Company's wholly-owned subsidiaries. In addition, the credit facility contains restrictions on payments including cash payments of dividends.

The revolving credit agreement was amended in September 2014 to increase the amount of indebtedness that the Company may incur and increase the amount of restricted payments that the Company may make. This amendment to the revolving credit agreement also provides that if the Company's 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 the Company's and certain of its subsidiaries' assets, subject to limited exceptions. As of June 30, 2015, no amounts had been drawn under the credit facility.

Leases

The Company has entered into various non-cancelable operating lease agreements for certain offices and data center facilities with contractual lease periods expiring between 2015 and 2026. Under the terms of certain leases, the Company is committed to pay for certain taxes, insurance, maintenance and management expenses. Certain of these arrangements have free rent periods or escalating rent payment provisions, and the Company recognizes rent expense under such arrangements on a straight-line basis.

Legal Proceedings

The Company is currently involved in, and will likely in the future be involved in, legal proceedings, claims and investigations in the normal course of business. Legal fees and other costs associated with such actions are expensed as incurred. The Company assesses, in conjunction with its legal counsel, the need to record a liability for litigation and contingencies. Litigation accruals are recorded when and if it is determined that a loss related matter is both probable and reasonably estimable. Material loss contingencies that are reasonably possible of occurrence, if any, are subject to disclosure. As of June 30, 2015 and December 31, 2014, there was no litigation or contingency with at least a reasonable possibility of a material loss. No material losses have been recorded during the three and six months ended June 30, 2015 and 2014 with respect to litigation or loss contingencies.

Indemnification

In the ordinary course of business, the Company often includes standard indemnification provisions in its arrangements with its customers, partners, suppliers and vendors. Pursuant to these provisions, the Company may be obligated to indemnify such parties for losses or claims suffered or incurred in connection with its service, breach of representations or covenants, intellectual property infringement or other claims made against such parties. These provisions may limit the time within which an indemnification claim can be made. It is not possible to determine the maximum potential amount under these indemnification obligations due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. The Company has never incurred significant expense defending its licensees against third party claims, nor has it ever incurred significant expense under its standard service warranties or arrangements with its customers, partners, suppliers and vendors. Accordingly, the Company had no liabilities recorded for these provisions as of June 30, 2015 and December 31, 2014.

Note 13. Operations by Geographic Area

Revenue

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue by services:				
Advertising services	$452,278	$277,440	$840,489	$503,491
Data licensing and other	50,105	34,726	97,833	59,167
Total revenue	$502,383	$312,166	$938,322	$562,658

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014

Revenue by geographic area:				
United States	$321,191	$210,465	$610,119	$390,504
International	181,192	101,701	328,203	172,154
Total revenue	$502,383	$312,166	$938,322	$562,658

No individual country from the international markets contributed in excess of 10% of the total revenue for the three and six months ended June 30, 2015. The United Kingdom accounted for $33.4 million, or 11%, and $57.3 million, or 10%, of the total revenue for the three and six months ended June 30, 2014, respectively.

Long-Lived Assets

The following table sets forth long-lived assets by geographic area (in thousands):

	June 30, 2015	December 31, 2014
Property and equipment, net:		
United States	$607,417	$523,810
International	43,600	33,209
Total property and equipment, net	$651,017	$557,019

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

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

Overview

The mission we serve as Twitter, Inc. is to give everyone the power to create and share ideas and information instantly without barriers. We offer products and services for users, advertisers, developers, and platform and data partners. Our goal is to reach the largest daily audience in the world through our information sharing and distribution platform products. We believe that our audience is not limited to our users on the Twitter platform, but rather extends to a larger global audience, including users who are not logged in to Twitter and our syndication and SDK audiences.

We have already achieved significant global scale, and we continue to grow. In the three months ended June 30, 2015, we had approximately 316 million MAUs spanning nearly every country. We believe the current total audience that views content on our platform, including logged in and logged out users but not including syndicated content, is two to three times the number of our MAUs. Our users include millions of people from around the world, as well as influential individuals and organizations.

Our revenue for the three months ended June 30, 2015 was $502.4 million, which represents a 61% increase compared to the same period last year. We generate the substantial majority of our revenue from the sale of advertising services, with the balance coming from data licensing arrangements and our mobile advertising exchange services. Mobile is the primary driver of our business and we have been able to generate significant revenue through our mobile applications. In the three months ended June 30, 2015, 88% of our advertising revenue was generated from mobile devices.

Key Metrics

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

Monthly Active Users (MAUs). We define MAUs as Twitter users who logged in or were otherwise authenticated and accessed Twitter through our website, mobile website, desktop or mobile applications, SMS or registered third-party applications or websites in the 30-day period ending on the date of measurement. Average MAUs for a period represent the average of the MAUs at the end of each month during the period. MAUs are a measure of the size of our logged in or otherwise authenticated active user base. In the three months ended June 30, 2015, we had 316 million average MAUs, which represent an increase of 15% from the three months ended June 30, 2014. The growth in average MAUs was driven primarily by growth initiatives, and also organic growth and SMS Fast Followers. In the three months ended June 30, 2015, we had 66 million average MAUs in the United States and 250 million average MAUs in the rest of the world, which represent increases of 9% and 17%, respectively, from the three months ended June 30, 2014. For additional information on how we calculate the number of MAUs and factors that can affect this metric, see the section titled "Note Regarding Key Metrics."

Changes in Ad Engagements and Cost Per Ad Engagement. We define an ad engagement as a user interaction with one of our pay-for-performance advertising products. Ad engagements with our advertising products are based on a user completing an objective set out by an advertiser such as expanding, retweeting, favoriting or replying to a Promoted Tweet, playing an embedded video, downloading or engaging 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 June 30, 2015, ad engagements increased 53% from the three months ended June 30, 2014. The increase was driven by growth in video ad engagements and stronger advertiser demand for our advertising products in the second quarter of 2015 compared to the second quarter of 2014. In the three months ended June 30, 2015, average cost per ad engagement increased 6% from the three months ended June 30, 2014. The change in cost per ad engagement was primarily driven by a mix shift to ad formats such as objective-based advertisements and an increase in same-format prices.

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 and provision (benefit) for income taxes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Reconciliation of Net Loss to Adjusted EBITDA				
Net loss	$(136,663)	$(144,642)	$(299,105)	$(277,004)
Stock-based compensation expense	175,143	158,411	357,948	284,780
Depreciation and amortization expense	76,049	45,631	143,913	85,582
Interest and other expense, net	25,132	330	40,326	2,099
Benefit from income taxes	(19,473)	(5,599)	(18,841)	(4,377)
Adjusted EBITDA	$120,188	$54,131	$224,241	$91,080

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 and income tax effects related to acquisitions.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Reconciliation of Net Loss to Non-GAAP Net Income				
Net loss	$(136,663)	$(144,642)	$(299,105)	$(277,004)
Stock-based compensation expense	175,143	158,411	357,948	284,780
Amortization of acquired intangible assets	13,965	8,099	24,760	14,275
Non-cash interest expense related to convertible notes	17,006	—	33,644	—
Non-cash expense related to acquisitions	926	—	926	—
Income tax effects related to acquisitions	(21,859)	(7,272)	(23,147)	(7,272)
Non-GAAP net income	$48,518	$14,596	$95,026	$14,779

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 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.

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Results of Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Revenue				
Advertising services	$452,278	$277,440	$840,489	$503,491
Data licensing and other	50,105	34,726	97,833	59,167
Total Revenue	502,383	312,166	938,322	562,658
Costs and expenses [(1)]				
Cost of revenue	167,623	100,027	311,098	185,530
Research and development	198,907	177,095	388,653	326,486
Sales and marketing	201,948	140,261	385,505	246,496
General and administrative	64,909	44,694	130,686	83,428
Total costs and expenses	633,387	462,077	1,215,942	841,940
Loss from operations	(131,004)	(149,911)	(277,620)	(279,282)
Interest expense	(24,437)	(2,654)	(48,756)	(5,756)
Other income (expense), net	(695)	2,324	8,430	3,657
Loss before income taxes	(156,136)	(150,241)	(317,946)	(281,381)
Benefit from income taxes	(19,473)	(5,599)	(18,841)	(4,377)
Net loss	$(136,663)	$(144,642)	$(299,105)	$(277,004)

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

	Three Months Ended June 30,		Six Months Ended June 30,
	2015	2014	2015