

TWITTER, INC.
Form 10-Q
November 06, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission File Number 001-36164

Twitter, Inc.

(Exact name of registrant as specified in its charter)

Delaware 20-8913779
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

1355 Market Street, Suite 900

San Francisco, California 94103

Edgar Filing: TWITTER, INC. - Form 10-Q

(Address of principal executive offices and Zip Code)

(415) 222-9670

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

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

The number of shares of the registrant's common stock outstanding as of October 31, 2014 was 634,511,461.

TABLE OF CONTENTS

	Page
	<u>PART I – FINANCIAL INFORMATION</u>
Item 1.	<u>Financial Statements (Unaudited)</u> 5
	<u>Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013</u> 5
	<u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2014 and September 30, 2013</u> 6
	<u>Consolidated Statements of Comprehensive Loss for the Three and Nine Months Ended September 30, 2014 and September 30, 2013</u> 7
	<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2014 and September 30, 2013</u> 8
	<u>Notes to Consolidated Financial Statements</u> 9
Item 2.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> 24
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 38
Item 4.	<u>Controls and Procedures</u> 39
	 <u>PART II – OTHER INFORMATION</u>
Item 1.	<u>Legal Proceedings</u> 40
Item 1A.	<u>Risk Factors</u> 40
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 67
Item 6.	<u>Exhibits</u> 67
	<u>Signatures</u> 68

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- our ability to attract and retain users and increase the level of engagement 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 platform and increase the amount that advertisers spend with us;
- our expectations regarding our user growth rate and the usage of our mobile applications;
- our ability to increase our revenue and our revenue growth rate;
- our ability to improve user monetization, including advertising revenue per timeline view;
- 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.

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, results of operations and 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 will 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, timeline views, timeline views per MAU and advertising revenue per timeline view, 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, timeline views, timeline views per MAU and advertising revenue per timeline view.

The numbers of active users and timeline views 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. 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. For example, we made an improvement in our spam detection capabilities in the second quarter of 2013 and suspended 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 third-party applications that automatically contact our servers for regular updates with no 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 September 30, 2014, approximately 11.5% of all active users solely used third-party applications to access Twitter. However, only up to approximately 8.5% of all active users used third-party applications that may have automatically contacted our servers for regular updates without any discernable additional user-initiated action. The calculations of MAUs presented in this Quarterly Report on Form 10-Q may be affected as a result of automated 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 present and discuss timeline views in this Quarterly Report on Form 10-Q. We have estimated a small percentage of timeline views in the three months ended September 30, 2013 to account for certain timeline views that were logged incorrectly during the quarter as a result of a product update. We believe this estimate to be reasonable, but the actual numbers could differ from our estimate. We present and discuss our total audience based on both internal metrics and data from Google Analytics, which measures unique visitors to our properties.

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.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

TWITTER, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

(Unaudited)

	September 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$2,252,795	\$841,010
Short-term investments	1,394,887	1,393,044
Accounts receivable, net of allowance for doubtful accounts of \$4,102 and \$2,020 as of September 30, 2014 and December 31, 2013, respectively	324,731	247,328
Prepaid expenses and other current assets	201,472	93,297
Total current assets	4,173,885	2,574,679
Property and equipment, net	503,958	332,662
Intangible assets	115,346	77,627
Goodwill	622,638	363,477
Other assets	32,827	17,795
Total assets	\$5,448,654	\$3,366,240
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$30,619	\$27,994
Accrued and other current liabilities	301,330	110,310
Capital leases, short-term	110,527	87,126
Total current liabilities	442,476	225,430
Convertible notes	1,293,604	—
Capital leases, long-term	121,621	110,520
Deferred and other long-term tax liabilities, net	29,420	59,500
Other long-term liabilities	36,495	20,784
Total liabilities	1,923,616	416,234
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock, \$0.000005 par value-- 5,000,000 shares authorized; 632,158 and 569,922 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively	3	3
Additional paid-in capital	4,973,349	3,944,952
Accumulated other comprehensive loss	(1,220)	(323)
Accumulated deficit	(1,447,094)	(994,626)

Total stockholders' equity	3,525,038	2,950,006
Total liabilities and stockholders' equity	\$5,448,654	\$3,366,240

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		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Revenue	\$361,266	\$168,580	\$923,924	\$422,215
Costs and expenses				
Cost of revenue	124,166	62,239	309,696	154,067
Research and development	183,342	87,307	509,828	199,144
Sales and marketing	164,015	61,214	410,511	138,911
General and administrative	51,174	21,152	134,602	56,248
Total costs and expenses	522,697	231,912	1,364,637	548,370
Loss from operations	(161,431)	(63,332)	(440,713)	(126,155)
Interest income (expense), net	(5,795)	(1,727)	(10,472)	(4,473)
Other income (expense), net	(8,079)	818	(5,501)	(1,730)
Loss before income taxes	(175,305)	(64,241)	(456,686)	(132,358)
Provision (benefit) for income taxes	159	360	(4,218)	1,494
Net loss	\$(175,464)	\$(64,601)	\$(452,468)	\$(133,852)
Net loss per share attributable to common stockholders:				
Basic	\$(0.29)	\$(0.48)	\$(0.76)	\$(1.02)
Diluted	\$(0.29)	\$(0.48)	\$(0.76)	\$(1.02)
Weighted-average shares used to compute net loss				
per share attributable to common stockholders:				
Basic	614,395	133,699	596,722	131,196
Diluted	614,395	133,699	596,722	131,196

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

TWITTER, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net loss	\$(175,464)	\$(64,601)	\$(452,468)	\$(133,852)
Other comprehensive income (loss):				
Unrealized gain (loss) on investments in available-for-sale securities, net of tax	(153)	42	(231)	10
Foreign currency translation adjustment	(1,266)	268	(666)	304
Net change in accumulated other comprehensive loss	(1,419)	310	(897)	314
Comprehensive loss	\$(176,883)	\$(64,291)	\$(453,365)	\$(133,538)

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

TWITTER, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities		
Net loss	\$(452,468)	\$(133,852)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	145,737	77,670
Stock-based compensation expense	454,382	79,170
Provision for bad debt	2,944	758
Deferred income tax benefit	(9,737)	(492)
Non-cash acquisition-related costs	320	566
Amortization of investment premium and other	9,420	2,124
Amortization of discount on convertible notes	2,411	—
Changes in assets and liabilities, net of assets acquired and liabilities assumed from acquisitions:		
Accounts receivable	(77,833)	(34,262)
Prepaid expenses and other assets	(140,710)	(2,410)
Accounts payable	5,298	(8,292)
Accrued and other liabilities	98,714	23,286
Net cash provided by operating activities	38,478	4,266
Cash flows from investing activities		
Purchases of property and equipment	(132,839)	(46,628)
Purchases of marketable securities	(1,617,415)	(281,574)
Proceeds from maturities of marketable securities	1,522,582	300,167
Proceeds from sales of marketable securities	168,168	34,765
Restricted cash	(11,029)	(7,541)
Business combinations, net of cash acquired and purchases of intangible assets	(165,177)	(8,072)
Net cash used in investing activities	(235,710)	(8,883)
Cash flows from financing activities		
Proceeds from issuance of convertible notes	1,800,000	—
Convertible notes initial issuance discount	(27,475)	—
Purchases of convertible note hedges	(387,450)	—
Proceeds from issuance of warrants	275,130	—
Taxes paid related to net share settlement of equity awards	(16,168)	—
Repayments of capital lease obligations	(75,076)	(49,242)
Proceeds from exercise of stock options, net of repurchase	25,027	6,937
Proceeds from issuances of common stock under employee stock purchase plan	21,224	—
Other financing activities	(2,662)	(1,125)
Net cash provided by (used in) financing activities	1,612,550	(43,430)
Net increase (decrease) in cash and cash equivalents	1,415,318	(48,047)
Foreign exchange effect on cash and cash equivalents	(3,533)	423

Edgar Filing: TWITTER, INC. - Form 10-Q

Cash and cash equivalents at beginning of period	841,010	203,328
Cash and cash equivalents at end of period	\$2,252,795	\$155,704
Supplemental disclosures of non-cash investing and financing activities		
Common and convertible preferred stock issued in connection with acquisitions	\$147,958	\$112,945
Equipment purchases under capital leases	\$110,409	\$95,500
Changes in accrued equipment purchases	\$14,345	\$16,522
Unpaid deferred offering costs	\$—	\$2,786

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 is a public platform where any user can create a Tweet and any user can follow other users. Each Tweet is limited to 140 characters of text, but can also contain rich media, including photos, videos and applications.

Convertible Notes Offering

In September 2014, the Company issued \$900.0 million principal amount of 0.25% convertible senior notes due 2019 (the “2019 Notes”) and \$900.0 million principal amount of 1.00% convertible senior notes due 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. The total net proceeds from this offering, after deducting initial purchasers’ discount and debt issuance costs, were approximately \$1.77 billion.

Concurrently with the issuance of the 2019 Notes and 2021 Notes, the Company entered into convertible note hedge transactions for which it paid \$387.5 million. In addition, the Company sold warrants for which it received \$275.1 million.

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.

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, 2013.

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 July 2013, the Financial Accounting Standards Board ("FASB") issued a new accounting standard update on the financial statement presentation of unrecognized tax benefits. The new guidance provides that a liability related to an unrecognized tax benefit would be presented as a reduction of a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward, if such settlement is required or expected in the event the uncertain tax position is disallowed. The Company adopted this guidance prospectively for unrecognized tax benefits as of January 1, 2014. The application of this guidance resulted in a \$15.8 million decrease in net deferred tax assets and the related liability for unrecognized tax benefits upon adoption.

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 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. This guidance will be effective for the Company beginning January 1, 2017 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. Early adoption is not permitted. 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.

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

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

	September 30, 2014	December 31, 2013
Cash and cash equivalents:		
Cash	\$1,626,946	\$164,135
Money market funds	330,849	229,529
U.S. government and agency securities including treasury bills	141,549	251,593
Corporate notes and commercial paper	153,451	195,753
Total cash and cash equivalents	\$2,252,795	\$841,010
Short-term investments:		
U.S. government and agency securities including treasury bills	\$652,936	\$785,536
Corporate notes, certificates of deposit and commercial paper	741,951	607,508
Total short-term investments	\$1,394,887	\$1,393,044

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

September 30, 2014			
Gross	Gross	Gross	Aggregated

Edgar Filing: TWITTER, INC. - Form 10-Q

	Amortized Costs	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. Government and agency securities including				
treasury bills	\$652,908	\$ 50	\$ (22)	\$652,936
Corporate notes, certificates of deposit and				
commercial paper	742,290	27	(366)	741,951
Total available-for-sale securities classified as				
short-term investments	\$1,395,198	\$ 77	\$ (388)	\$1,394,887

Edgar Filing: TWITTER, INC. - Form 10-Q

	December 31, 2013			Aggregated
	Gross Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government and agency securities including				
treasury bills	\$785,535	\$ 22	\$ (21)	\$785,536
Corporate notes, certificates of deposit and				
commercial paper	607,590	11	(93)	607,508
Total available-for-sale securities classified as				
short-term investments	\$1,393,125	\$ 33	\$ (114)	\$1,393,044

The 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 the carrying value approximates fair value because of the short maturity period of these instruments.

The following tables show all short-term investments in an unrealized loss position for which other-than-temporary impairment has not been recognized and the related gross unrealized losses and fair value, aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position (in thousands):

	September 30, 2014				Total	
	Less than 12 Months	12 Months or Greater	Unrealized	Fair Value	Fair Value	Unrealized
	Fair Value	Unrealized Loss	Fair Value	Loss	Value	Loss
U.S. Government and agency securities						
including treasury bills	\$219,392	\$ (22)	\$ —	\$ —	\$219,392	\$ (22)
Corporate notes, certificates of deposit						
and commercial paper	445,403	(366)	—	—	445,403	(366)
Total short-term investments in an						
unrealized loss position	\$664,795	\$ (388)	\$ —	\$ —	\$664,795	\$ (388)

Edgar Filing: TWITTER, INC. - Form 10-Q

	December 31, 2013					
	Less than 12 Months		12 Months or Greater		Total	Unrealized
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss		
U.S. Government and agency securities						
including treasury bills	\$230,478	\$ (21)	\$ —	\$ —	\$230,478	\$ (21)
Corporate notes, certificates of deposit						
and commercial paper	171,894	(93)	—	—	171,894	(93)
Total short-term investments in an						
unrealized loss position	\$402,372	\$ (114)	\$ —	\$ —	\$402,372	\$ (114)

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 following tables set forth the fair value of the Company's financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2014 and December 31, 2013 based on the three-tier fair value hierarchy (in thousands):

	September 30, 2014			Total
	Level 1	Level 2	Level 3	
Assets				
Cash equivalents:				
Money market funds	\$330,849	\$—	\$ —	\$330,849
Treasury bills	141,549	—	—	141,549
Commercial paper	—	153,451	—	153,451
Short-term investments:				
Treasury bills	68,474	—	—	68,474
Commercial paper	—	164,033	—	164,033
Corporate notes	—	532,332	—	532,332
U.S. government securities	—	584,462	—	584,462
Certificates of deposit	—	45,586	—	45,586
Total	\$540,872	\$1,479,864	\$ —	\$2,020,736

	December 31, 2013			Total
	Level 1	Level 2	Level 3	
Assets				
Cash equivalents:				
Money market funds	\$229,529	\$—	\$ —	\$229,529
Treasury bills	244,048	—	—	244,048
Commercial paper	—	194,742	—	194,742
U.S. government securities	—	7,545	—	7,545
Corporate notes	—	1,011	—	1,011
Short-term investments:				
Treasury bills	265,878	—	—	265,878
Agency securities	—	18,286	—	18,286
Commercial paper	—	272,617	—	272,617
Corporate notes	—	255,546	—	255,546
U.S. government securities	—	501,372	—	501,372
Certificates of deposit	—	79,345	—	79,345
Total	\$739,455	\$1,330,464	\$ —	\$2,069,919

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 estimated fair value of our 2019 Notes and 2021 Notes based on a market approach was approximately \$879.9 million and \$882.3 million respectively, which represents a Level 2 valuation. The estimated fair value was determined based on the quoted closing price of the Notes in an over-the-counter market on September 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):

	September 30, 2014	December 31, 2013
Property and equipment, net		
Equipment	\$535,092	\$367,949
Furniture and leasehold improvements	113,069	54,965
Capitalized software	78,436	47,290
Construction in progress	61,743	29,523
Total	788,340	499,727
Less: Accumulated depreciation and amortization	(284,382)	(167,065)
Property and equipment, net	\$503,958	\$332,662

Note 5. Goodwill and Other Intangible Assets

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

Goodwill	
Balance as of December 31, 2013	\$363,477
Gnip acquisition	104,747
Other acquisitions	155,054
Foreign currency translation adjustment	(640)
Balance as of September 30, 2014	\$622,638

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

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

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
September 30, 2014:			
Patents and developed technologies	\$153,497	\$ (64,170)	\$89,327
Publisher and advertiser relationships	32,000	(7,439)	24,561
Assembled workforce	1,960	(1,092)	868
Other intangible assets	1,100	(510)	590

Edgar Filing: TWITTER, INC. - Form 10-Q

Total	\$ 188,557	\$ (73,211)	\$ 115,346
December 31, 2013:				
Patents and developed technologies	\$ 100,553	\$ (45,440)	\$ 55,113
Publisher and advertiser relationships	21,100	(1,248)	19,852
Assembled workforce	1,960	(300)	1,660
Other intangible assets	1,100	(98)	1,002
Total	\$ 124,713	\$ (47,086)	\$ 77,627

Amortization expense associated with other intangible assets for the three months ended September 30, 2014 and 2013 was \$11.8 million and \$3.8 million, respectively, and for the nine months ended September 30, 2014 and 2013 was \$26.1 million and \$11.0 million, respectively.

Edgar Filing: TWITTER, INC. - Form 10-Q

Estimated future amortization expense as of September 30, 2014 is as follows (in thousands):

Remainder of 2014	\$ 10,095
2015	35,555
2016	26,391
2017	11,624
2018	9,832
Thereafter	21,849
Total	\$ 115,346

Note 6. Other Balance Sheet Components

Prepaid and other current assets

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

	September 30, 2014	December 31, 2013
Deferred income taxes, net	\$ 31,107	\$ 62,122
Prepaid and other	170,365	31,175
Total	\$ 201,472	\$ 93,297

Accrued and other current liabilities

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

	September 30, 2014	December 31, 2013
Accrued compensation	\$ 82,970	\$ 29,882
Unsettled purchases of marketable securities	76,670	—
Accrued fixed assets and maintenance	30,166	5,697
Deferred revenue	21,881	14,479
Accrued publisher payments	20,819	15,370
Accrued professional services	10,301	7,089
Accrued tax liabilities	17,341	9,515
Accrued other	41,182	28,278
Total	\$ 301,330	\$ 110,310

Note 7. Acquisitions

In May 2014, the Company completed its acquisition of privately held Gnip, Inc. (“Gnip”), a leading provider of social data and analytics headquartered in Boulder, Colorado. The acquisition is expected to allow the Company to further enhance its data analytics capabilities. Under the terms of the acquisition, the Company agreed to pay \$107.3 million in cash and issue a total of 0.6 million shares of its common stock, including shares of restricted stock subject to continued employment, in consideration for all of the issued and outstanding shares of capital stock of Gnip. In addition, the Company agreed to issue up to 0.4 million shares of the Company’s common stock as a result of assumed Gnip equity awards held by individuals, who will continue to provide services to the Company. The fair value of the total consideration of \$134.1 million, including the earned portion of assumed stock options and other equity awards, was preliminarily allocated to the acquired tangible and intangible assets and assumed liabilities based on their estimated fair values at closing as follows: \$23.2 million to developed technology, \$9.3 million to customer relationships, \$9.1 million to tangible assets acquired, \$5.8 million to liabilities assumed, \$6.4 million to deferred tax liability recorded, and the excess \$104.7 million of the purchase price over the fair value of net assets acquired was recorded as goodwill. This goodwill is primarily attributable to the potential expansion and future development of the Company’s data products, expected synergies arising from the acquisition and the value of acquired talent. Goodwill is not expected to be deductible for U.S. income tax purposes. Both developed technology and customer relationships will be amortized on a straight-line basis over their estimated useful life of 60 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 these intangible assets acquired.

During the nine months ended September 30, 2014, the Company acquired eight other companies, which were accounted for as business combinations. The total purchase price of \$188.1 million (paid in shares of the Company's common stock having a total fair value of \$121.2 million and cash of \$66.9 million) for these acquisitions was preliminarily allocated as follows: \$28.1 million to developed technologies, \$1.6 million to customer relationships, \$6.5 million to net tangible assets acquired based on their estimated fair value on the acquisition date, \$3.2 million to deferred tax liability, and the excess \$155.1 million of the purchase price over the fair value of net assets acquired to goodwill. Goodwill resulting from these acquisitions is not expected to be deductible for U.S. income tax purposes. Developed technologies and customer relationships will be amortized on a straight-line basis over their estimated useful lives of 12 to 48 months.

In connection with all of the acquisitions completed during the nine months ended September 30, 2014, the Company also agreed to pay cash and shares of the Company's common stock with a total fair value up to \$97.7 million, which is to be paid to certain employees of the acquired entities contingent upon their continued employment with the Company. The Company recognizes compensation expense related to the cash and equity consideration over the requisite services periods of up to 48 months from the respective acquisition dates on a straight-line basis. In addition, the Company will recognize approximately \$16.9 million of stock-based compensation expense in relation to these assumed stock options over the remaining requisite service periods of up to 48 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. 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. Net Loss per Share

The Company computes net loss per share of common stock in conformity with the two-class method required for participating securities. The Company considers the shares issued upon the early exercise of stock options subject to repurchase to be participating securities, because holders of such shares have non-forfeitable dividend rights in the event a dividend is paid on common stock. Prior to their conversion to common stock, the Company also considered all series of the Company's redeemable convertible preferred stock and convertible preferred stock to be participating securities as the holders of the preferred stock were entitled to receive a noncumulative dividend on a pari passu basis in the event that a dividend was paid on common stock. The holders of all series of convertible preferred stock and the holders of early exercised shares subject to repurchase do not have a contractual obligation to share in the losses of the Company. As such, the Company's net losses for the three and nine months ended September 30, 2014 and 2013 were not allocated to these participating securities.

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 nine months ended September 30, 2014 and 2013, the Company's potential common stock instruments such as stock options, RSUs, shares to be issued under the

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.

15

Edgar Filing: TWITTER, INC. - Form 10-Q

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net loss	\$(175,464)	\$(64,601)	\$(452,468)	\$(133,852)
Basic shares:				
Weighted-average common shares outstanding	624,205	140,438	605,756	137,486
Weighted-average restricted stock				
subject to repurchase	(9,810)	(6,739)	(9,034)	(6,290)
Weighted-average shares used to compute basic net loss per share	614,395	133,699	596,722	131,196
Diluted shares:				
Weighted-average shares used to compute diluted net loss per share	614,395	133,699	596,722	131,196
Net loss per share attributable to common stockholders:				
Basic	\$(0.29)	\$(0.48)	\$(0.76)	\$(1.02)
Diluted	\$(0.29)	\$(0.48)	\$(0.76)	\$(1.02)

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

	Three and Nine Months Ended September 30,	
	2014	2013
Stock options	22,327	42,709
RSUs	74,114	41,733
Employee stock purchase plan	1,147	—
Shares subject to repurchase	10,070	7,520
Warrants	23,183	117

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 will have a dilutive impact on diluted net income per share of common stock when the average market price of our 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 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 common stock is below \$105.28, the warrants are anti-dilutive.

Note 9. Common Stock and Stockholders' Equity

Common Stock

Each share of common stock is entitled to one vote. The holders of common stock are also entitled to receive dividends whenever funds are legally available and when and if declared by the Board of Directors. As of September 30, 2014, no dividends have been declared.

Restricted Common Stock

The Company has granted restricted common stock to certain key 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 option to repurchase the unvested shares upon termination of employment. The fair value of the restricted common stock issued to employees is recorded as compensation expense on a straight-line basis over the requisite service period.

The activities for the restricted common stock issued to employees for the nine months ended September 30, 2014 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, 2013	6,866	\$ 17.60
Granted	2,467	\$ 33.80
Vested	(2,256)	\$ 17.18
Canceled	(98)	\$ 13.46
Unvested restricted common stock at September 30, 2014	6,979	\$ 23.52

During the three months ended September 30, 2014 and 2013, the Company recorded \$14.2 million and \$7.8 million, respectively, and recorded \$38.2 million and \$20.3 million during the nine months ended September 30, 2014 and 2013, respectively, of compensation expense related to restricted common stock issued to employees. As of September 30, 2014, there was \$114.7 million of unamortized stock-based compensation expense related to restricted common stock issued which is expected to be recognized over a weighted-average period of 2.50 years. To the extent the actual forfeiture rate is different from the Company's estimate, stock-based compensation expense related to these stock awards will be different.

Equity Incentive Plans

As of September 30, 2014, the total number of RSUs and options outstanding under the 2013 Equity Incentive Plan was 26.2 million shares, and 79.3 million shares were available for future issuance. There were 68.2 million shares underlying options and RSUs outstanding under the 2007 Equity Incentive Plan as of September 30, 2014. No additional equity awards will be issued under the 2007 Equity Incentive Plan.

Under the 2007 Equity Incentive Plan, RSUs granted to domestic and international employees prior to February 2013 ("Pre-2013 RSUs") vest upon the 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 2007 Equity Incentive Plan. An aggregate of 17.1 million shares of common stock were issued as a result of vesting and settlement of the Pre-2013 RSUs in the first quarter of 2014. During the same period, the Company's employees who are not executive officers were allowed to sell a portion of vested and settled Pre-2013 RSUs in the public market to satisfy the income tax obligations related to the vesting and settlement of such awards. The proceeds from selling the shares required to satisfy the employees' minimum statutory tax obligation were withheld and remitted to the appropriate tax authorities. RSUs granted to domestic employees starting in February 2013 ("Post-2013 RSUs") are not subject to a performance condition in order to vest. The majority of Post-2013 RSUs vest over a service period of four years. Under the terms of the 2007 Equity Incentive Plan and the

2013 Equity Incentive Plan, the shares underlying Post-2013 RSUs that satisfy the service condition are to be delivered to holders no later than the fifteenth day of the third month following the end of the calendar year the service condition is satisfied, or if later, the end of the Company's tax year.

In addition, the Company undertook a net settlement of vested Pre-2013 RSUs held by the executive officers upon satisfaction of the performance condition in 2014 and withheld shares and remitted income tax of \$16.2 million in cash on behalf of the applicable executive officers at the applicable minimum statutory rates in the nine months ended September 30, 2014. These shares withheld by the Company as a result of the net settlement of Pre-2013 RSUs are no longer considered issued and outstanding.

Employee Stock Purchase Plan

On May 15, 2014, the first purchase under the ESPP was made and employees purchased an aggregate of 1.0 million shares at a price of \$22.10 per share. As of September 30, 2014, 16.7 million shares were available for future issuance under the ESPP. During the three and nine months ended September 30, 2014, the Company recorded \$9.1 million and \$25.8 million, respectively, of stock-based compensation expense related to the ESPP.

Stock Option Activity

A summary of stock option activity for the nine months ended September 30, 2014 is as follows (in thousands, except years and per share data):

	Options Outstanding	Weighted- Average Remaining Contractual Life (in years)	Weighted- Average Exercise Price Per Share	Aggregate Intrinsic Value
	Number of Shares			
Outstanding at December 31, 2013	42,246	6.47	\$ 1.89	\$2,609,295
Options granted	500		\$ 42.05	
Options assumed in connection with acquisitions	819		\$ 1.60	
Options exercised	(20,652)		\$ 1.22	
Options canceled	(586)		\$ 8.24	
Outstanding at September 30, 2014	22,327	6.10	\$ 3.23	\$1,079,592
Vested and expected to vest at				
September 30, 2014 ⁽¹⁾	21,885	6.07	\$ 3.10	\$1,061,031
Exercisable at September 30, 2014	17,638	5.68	\$ 1.54	\$882,557

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

The aggregate intrinsic value in the table above represents the difference between the fair value of common stock and the exercise price of outstanding, in-the-money stock options.

The total intrinsic value of stock options exercised during the three months ended September 30, 2014 and 2013 were \$265.2 million and \$24.0 million, respectively and \$802.3 million and \$95.3 million in the nine months ended September 30, 2014 and 2013, respectively. The total grant date fair value of stock options vested during the three months ended September 30, 2014 and 2013 were \$4.8 million and \$4.4 million, respectively, and \$10.7 million and \$8.7 million in the nine months ended September 30, 2014 and 2013, respectively.

RSU Activity

The following table summarizes the activity related to the Company's Pre- and Post-2013 RSUs for the nine months ended September 30, 2014. For purposes of this table, vested RSUs represent the shares for which the service condition had been fulfilled as of each respective date (in thousands, except per share data):

	RSUs Outstanding	
		Weighted- Average Grant- Date Fair Value
	Shares	Per Share
Unvested and outstanding at December 31, 2013	79,876	\$ 19.54
Granted	22,718	\$ 49.12
Vested	(19,403)	\$ 19.38
Canceled	(9,077)	\$ 20.24
Unvested and outstanding at September 30, 2014	74,114	\$ 28.56

The fair value as of the respective vesting dates of RSUs that vested during the three and nine months ended September 30, 2014 was \$469.8 million and \$940.4 million, respectively and \$65.2 million and \$155.4 million, respectively during the three and nine months ended September 30, 2013.

Stock-Based Compensation Expense

Total stock-based compensation expense recorded for employee and non-employee stock options, RSUs, shares issued under the ESPP, restricted common stock and Class A junior preferred stock in the three and nine months ended September 30, 2014 and 2013 is summarized as follows (in thousands):

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2013	
Employee	\$167,249	\$43,320	\$447,698	\$77,735
Non-employee	2,353	282	6,684	1,435
Total	\$169,602	\$43,602	\$454,382	\$79,170

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 September 30, 2014		Nine Months Ended September 30, 2013	
Cost of revenue	\$13,596	\$3,060	\$37,296	\$5,015
Research and development	93,973	29,180	264,784	53,377
Sales and marketing	42,884	5,742	108,232	10,356
General and administrative	19,149	5,620	44,070	10,422
Total	\$169,602	\$43,602	\$454,382	\$79,170

The Company capitalized \$10.9 million and \$3.4 million of stock-based compensation expense associated with the cost for developing software for internal use in the three months ended September 30, 2014 and 2013, respectively, and \$26.4 million and \$6.7 million in the nine months ended September 30, 2014 and 2013, respectively.

The weighted-average grant-date fair value of stock options granted to employees, including stock assumed in connection with acquisitions, in the three months ended September 30, 2014 was \$26.10 per share, and in the nine months ended September 30, 2014 and 2013 were \$30.12 and \$11.13 per share, respectively. The Company did not grant additional options to employees during the three months ended September 30, 2013. The fair value of stock options granted to employees and options assumed in connection with acquisitions was determined using the Black-Scholes option pricing model with the following weighted-average assumptions:

Edgar Filing: TWITTER, INC. - Form 10-Q

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2013	
Expected dividend yield	—	N/A	—	—
Risk-free interest rate	1.86 %	N/A	1.47 %	1.07 %
Expected volatility	43.70 %	N/A	42.54 %	53.77 %
Expected term (in years)	5.85	N/A	4.73	5.63

As of September 30, 2014, there was \$39.7 million of unamortized stock-based compensation expense related to unvested stock options granted to employees and non-employee service providers which is expected to be recognized over a weighted-average period of 2.29 years. As of September 30, 2014, the unamortized stock-based compensation expense related to Pre- and Post-2013 RSUs of \$69.0 million and \$1.42 billion, respectively, is expected to be recognized over a weighted-average period of 1.99 years and 3.12 years, respectively. \$5.8 million of unamortized stock-based compensation expense related to the ESPP is expected to be recognized over a period of 0.23 years. To the extent the actual forfeiture rate is different from the Company's estimate, stock-based compensation expense related to these stock awards will be different.

Note 10. Income Taxes

The Company is subject to taxation in the United States and various state and foreign jurisdictions. Earnings from non-US activities are subject to local country income tax. The material jurisdictions in which the Company is subject to potential examination by taxing authorities include the United States, California and Ireland. The Company is currently under an income tax examination by the Internal Revenue Service (IRS) for tax year 2012 and 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 provision of \$0.2 million and \$0.4 million for the three months ended September 30, 2014 and 2013, respectively, and an income tax benefit of \$4.2 million and an income tax provision of \$1.5 million for the nine months ended September 30, 2014 and 2013, respectively. The income tax provision decreased in the three and nine months ended September 30, 2014 compared to the same periods last year, primarily due to the deferred income tax benefits related to acquisitions concluded during the second and third quarters, partially offset by increased foreign and state income tax expenses. As of September 30, 2014, 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 nine months ended September 30, 2014 will not be realized by the end of the 2014 fiscal year. Accordingly, the Company did not record the tax benefits of the U.S. losses incurred during the nine months ended September 30, 2014. 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 nine months ended September 30, 2014, the amount of gross unrecognized tax benefits increased by \$26.2 million and \$62.6 million, respectively. As of September 30, 2014, the Company has \$105.7 million of unrecognized tax benefits which are subject to full valuation allowance and, if recognized, will not affect the annual effective tax rate.

As a result of employee RSUs that vested in the three and nine months ended September 30, 2014, the Company's federal net operating losses increased by approximately \$435.4 million and \$1.59 billion, respectively, and the state net operating losses increased by approximately \$114.7 million and \$418.7 million, respectively. The portion of the increased net operating loss carryforwards related to excess tax benefits from the RSUs for the three and nine months ended September 30, 2014 was approximately \$235.0 million and \$1.02 billion, respectively for federal tax purposes and \$61.9 million and \$269.2 million, respectively for state tax purposes, the benefit of which will be credited to additional paid-in capital when realized.

Note 11. Convertible 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 Rule 144A under the Securities Act of 1933, as amended. The total net proceeds from this offering, after deducting transaction costs, were approximately \$1.77 billion. The Company incurred a total of \$27.0 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 and are payable semi-annually in arrears on March 15 and September 15 of each year, commencing on March 15, 2015. During the three and nine months ended September 30, 2014, the Company recognized \$0.2 million of interest expense related to the amortization of initial purchasers'

discount and debt issuance costs, and \$0.4 million 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;

20

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 \$214.6 million for the 2019 Notes and \$267.4 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.

During the three and nine months ended September 30, 2014, the Company recognized \$2.4 million of interest expense related to the amortization of the debt discount. As of September 30, 2014, the net carrying value, net of the initial purchasers’ discount and debt discount, of 2021 Notes and 2019 Notes was \$673.3 million and \$620.3 million, respectively.

The Notes consisted of the following (in thousands):

	September 30, 2014	
	2019	2021
	Notes	Notes
Principal amounts:		
Principal	\$900,000	\$900,000
Unamortized initial purchasers' discount and debt discount ⁽¹⁾	(226,672)	(279,724)
Net carrying amount	\$673,328	\$620,276
Carrying amount of the equity component ⁽²⁾	\$214,591	\$267,381

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

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

As of September 30, 2014, the remaining life of the 2019 Notes and 2021 Notes is approximately 59 months and 83 months, respectively.

Concurrently with the offering of these notes in September 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 23.2 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 \$387.5 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 23.2 million shares of the Company's common stock at a price of \$105.28. The Company received \$275.1 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 as of September 30, 2014.

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 payment 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 September 30, 2014, no amounts were drawn under the credit facility.

Operating and Capital 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 2014 and 2026.

A summary of gross and net lease commitments as of September 30, 2014 is as follows (in thousands):

	Operating Leases	Capital Leases
Remainder of 2014	\$22,075	\$31,863
2015	107,583	109,579
2016	133,760	71,702
2017	136,985	30,421
2018	133,060	2,709
Thereafter	394,802	—
	\$928,265	246,274

Edgar Filing: TWITTER, INC. - Form 10-Q

Less: Amounts representing interest	14,126
Total capital lease obligation	232,148
Less: Short-term portion	110,527
Long-term portion	\$121,621

Legal Proceedings

The Company is currently involved in, and will likely in the future be involved in, legal proceedings, claims and governmental 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 September 30, 2014 and December 31, 2013, there was no litigation or contingency with at least a reasonable possibility of a material loss. No losses have been recorded during three and nine months ended September 30, 2014 and 2013 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 September 30, 2014 and December 31, 2013.

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 geographic area (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue:				
United States	\$240,169	\$124,687	\$630,673	\$315,486
International	121,097	43,893	293,251	106,729
Total revenue	\$361,266	\$168,580	\$923,924	\$422,215

The United Kingdom accounted for \$37.5 million, or 10%, \$17.2 million, or 10%, \$94.8 million, or 10%, and \$43.0 million, or 10% of the total revenue for the three months ended September 30, 2014 and 2013, and for the nine months ended September 30, 2014 and 2013, respectively.

Long-Lived Assets

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

	September 30, 2014	December 31, 2013
Long-lived assets:		
United States	\$479,020	\$327,250
International	24,938	5,412
Total long-lived assets	\$503,958	\$332,662

Note 14. Subsequent Events

In October 2014, the Company issued an additional \$35 million aggregate principal amount of 2019 Notes and \$54 million aggregate principal amount of 2021 Notes, pursuant to the exercise of the overallotment options of the initial purchasers. In connection with such issuance, the Company also entered into additional convertible note hedge transactions covering approximately 1.1 million shares of its common stock. The total cost of the additional convertible note hedge transactions was \$19.7 million. In addition, the Company sold additional warrants to purchase initially (subject to adjustment for certain specified events) a total of approximately 1.1 million shares of its common stock. The Company received \$14.1 million in cash proceeds from the sale of these additional warrants.

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

Twitter is a global platform for public self-expression and conversation in real time. Our platform is unique in its simplicity: Tweets are limited to 140 characters of text, but can also contain rich media, including photos, videos and applications. This constraint makes it easy for anyone to quickly create, distribute and discover content that is consistent across our platform and optimized for mobile devices. As a result, Tweets drive a high velocity of information exchange that makes Twitter uniquely "live."

We have already achieved significant global scale, and we continue to grow. As of the three months ended September 30, 2014, we have 284 million average MAUs spanning nearly every country. We believe the current total audience that views content on our platform, including logged 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.

The value we create for our users is enhanced by our platform partners and advertisers. Millions of platform partners, which include publishers, media outlets and developers, have integrated with Twitter, adding value to our user experience by contributing content to our platform, broadly distributing content from our platform across their properties and using Twitter content and tools to enhance their websites and applications. In addition, advertisers use our Promoted Products to promote their brands, products and services, amplify their visibility and reach, and complement and extend the conversation around their advertising campaigns.

Our revenue for the three months ended September 30, 2014 was \$361.3 million, which represents a 114% 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 has become the primary driver of our business and we have been able to generate significant revenue through our mobile applications. 85% of our advertising revenue was generated from mobile devices in the three months ended September 30, 2014.

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 active user base. In the three months ended September 30, 2014, we had 284 million average MAUs, which represents an increase of 23% from the three months ended September 30, 2013. The growth in average MAUs was driven primarily by organic growth and product enhancements. In the three months ended September 30, 2014, we had 63 million average MAUs in the United States and 221 million average MAUs in the rest of the world, which represent increases of 20% and 23%, respectively, from the three months ended September 30, 2013. 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.”

Timeline Views, Timeline Views Per MAU and Advertising Revenue Per Timeline View. We define timeline views as the total number of timelines requested when registered users visit Twitter, refresh a home timeline (but not other timelines) or view search results while logged in or were otherwise authenticated on our website, mobile website or desktop or mobile applications (excluding our TweetDeck and Mac clients, as we do not fully track this data). We believe that each of timeline views and timeline views per MAU are one way to measure user engagement. Timeline views per MAU are calculated by dividing the total timeline views for the period by the average MAUs for the last three months of such period. In the three months ended September 30, 2014, we had 180.6 billion timeline views, which represents an increase of 14% from the three months ended September 30, 2013. The growth in timeline views was partially due to user growth and product enhancements. In the three months ended September 30, 2014, we had 48.9 billion timeline views in the United States, which represents an increase of 13% from the three months ended September 30, 2013. In the three months ended September 30, 2014, we had 131.7 billion timeline views in the rest of the world, which represents an increase of 14% from the three months ended September 30, 2013. In the three months ended September 30, 2014, we had 636 timeline views per MAU, which represents a decrease of 7% from the three months ended September 30, 2013. In the three months ended September 30, 2014, we had 774 timeline views per MAU in the United States and 597 timeline views per MAU in the rest of the world, which represent decreases of 6% and 8%, respectively, from the three months ended September 30, 2013. We anticipate that as we continue to improve Twitter to make it easier and more efficient for users to find content, the current trend of period-over-period declines in timeline views per MAUs may continue. For additional information on how we calculate the number of timeline views and factors that can affect this metric, see the section titled “Note Regarding Key Metrics.”

We define advertising revenue per timeline view as advertising revenue per 1,000 timeline views during the applicable period. We believe that advertising revenue per timeline view is a measure of our ability to monetize our platform. In the three months ended September 30, 2014, our advertising revenue per timeline view was \$1.77, which represents an 83% increase from the three months ended September 30, 2013. In the three months ended September 30, 2014, our advertising revenue per timeline view in the United States was \$4.28 and our advertising revenue per timeline view in the rest of the world was \$0.84, which represent increases of 66% and 132%, respectively, from the three months ended September 30, 2013. We record advertising revenue based on the billing location of our advertisers, rather than the location of our users.

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 and non-GAAP net loss. 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 expense 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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Reconciliation of Net Loss to Adjusted EBITDA				
Net loss	\$(175,464)	\$(64,601)	\$(452,468)	\$(133,852)
Stock-based compensation expense	169,602	43,602	454,382	79,170
Depreciation and amortization expense	60,155	29,023	145,737	77,670
Interest and other expense, net	13,874	909	15,973	6,203
Provision (benefit) for income taxes	159	360	(4,218)	1,494
Adjusted EBITDA	\$68,326	\$9,293	\$159,406	\$30,685

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 and income tax effects related to acquisitions.

Edgar Filing: TWITTER, INC. - Form 10-Q

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

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	2013	2014	2013	2014
	(In thousands)			
Reconciliation of Net Loss to Non-GAAP Net Income (Loss)				
Net loss	\$(175,464)	\$(64,601)	\$(452,468)	\$(133,852)
Stock-based compensation expense	169,602	43,602	454,382	79,170
Amortization of acquired intangible assets	11,869	3,783	26,144	10,961
Non-cash interest expense related to convertible notes	2,411	—	2,411	—
Income tax effects related to acquisitions	(1,446)	—	(8,718)	(383)
Non-GAAP net income (loss)	\$6,972	\$(17,216)	\$21,751	\$(44,104)

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 items that we exclude in our calculation of these non-GAAP financial measures may differ from the items, if any, that our peer companies may exclude from similarly-titled non-GAAP measures when they report their results of operations.

Components of Results of Operations

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 substantially all 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 or search results just like an ordinary Tweet regardless of device, whether it be desktop or mobile. Using our proprietary algorithms, 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, which, among other things, maps interests based on users followed and actions taken on our platform, such as Tweets created and engagement with Tweets. Our Promoted Tweets are pay-for-performance advertising that are priced through an auction. 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 are 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.
- Data Licensing and Other

We generate data licensing and other revenue by (i) offering 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. Our data partners generally purchase licenses to access all or a portion of our data for a fixed period.

Cost of Revenue and Operating Expenses

Cost of Revenue

Cost of revenue consists 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. Cost of revenue also includes allocated facilities and other supporting overhead costs, amortization of acquired intangible assets and capitalized labor costs. 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.

We plan to continue increasing the capacity and enhancing the capability and reliability of our infrastructure to support user growth and increased activity on our platform. We expect that cost of revenue will increase in dollar amount 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.

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

29

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 market research, tradeshow, branding, marketing, public relations costs, amortization of acquired intangible assets, as well as allocated facilities and other supporting overhead costs.

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 dollar amount 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.

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 we will incur additional general and administrative expenses as a result of being a newly-public company. We expect that general and administrative expenses will increase in dollar amount for the foreseeable future and vary in the near term from period to period as a percentage of revenue.

Provision (Benefit) for Income Taxes

Provision for income taxes consists of federal and state income taxes in the United States and income taxes in certain foreign jurisdictions, and deferred income taxes and changes in 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.

Results of Operations

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	(in thousands)			
Revenue				
Advertising services	\$320,196	\$153,437	\$823,687	\$374,869
Data licensing and other	41,070	15,143	100,237	47,346
Total Revenue	361,266	168,580	923,924	422,215
Costs and expenses ⁽¹⁾				
Cost of revenue	124,166	62,239	309,696	154,067
Research and development	183,342	87,307	509,828	199,144
Sales and marketing	164,015	61,214	410,511	138,911
General and administrative	51,174	21,152	134,602	56,248
Total costs and expenses	522,697	231,912	1,364,637	548,370
Loss from operations	(161,431)	(63,332)	(440,713)	(126,155)
Interest income (expense), net	(5,795)	(1,727)	(10,472)	(4,473)
Other income (expense), net	(8,079)	818	(5,501)	(1,730)
Loss before income taxes	(175,305)	(64,241)	(456,686)	(132,358)
Provision (benefit) for income taxes	159	360	(4,218)	1,494
Net loss	\$(175,464)	\$(64,601)	\$(452,468)	\$(133,852)

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

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Cost of revenue	\$13,596	\$3,060	\$37,296	\$5,015
Research and development	93,973	29,180	264,784	53,377
Sales and marketing	42,884	5,742	108,232	10,356
General and administrative	19,149	5,620	44,070	10,422
Total	\$169,602	\$43,602	\$454,382	\$79,170

Edgar Filing: TWITTER, INC. - Form 10-Q

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

	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Revenue				
Advertising services	89 %	91 %	89 %	89 %
Data licensing and other	11	9	11	11
Total Revenue	100	100	100	100
Costs and expenses				
Cost of revenue	34	37	34	36
Research and development	51	52	55	47
Sales and marketing	45	36	44	33
General and administrative	14	13	15	13
Total costs and expenses	145	138	148	130
Loss from operations	(45)	(38)	(48)	(30)
Interest income (expense), net	(2)	(1)	(1)	(1)
Other income (expense), net	(2)	0	(1)	(0)
Loss before income taxes	(49)	(38)	(49)	(31)
Provision (benefit) for income taxes	0	0	(0)	0
Net loss	(49)%	(38)%	(49)%	(32)%

Revenue

	Three Months Ended			Nine Months Ended		
	September 30,		% Change	September 30,		% Change
	2014	2013		2014	2013	
	(in thousands)			(in thousands)		
Advertising services	\$320,196	\$153,437	109 %	\$823,687	\$374,869	120 %
Data licensing and other	41,070	15,143	171 %	100,237	47,346	112 %
Total revenue	\$361,266	\$168,580	114 %	\$923,924	\$422,215	119 %

Revenue in the three and nine months ended September 30, 2014 increased by \$192.7 million and \$501.7 million compared to the three and nine months ended September 30, 2013, respectively.

In the three and nine months ended September 30, 2014, advertising revenue increased by 109% and 120% compared to the three and nine months ended September 30, 2013, respectively. The increases were primarily attributable to a 14% increase in timeline views in both the three and nine months ended September 30, 2014 compared to the same periods in 2013, as well as an increase in demand from advertisers that drove an increase in advertising revenue per timeline view of 83% and 92% in the three and nine months ended September 30, 2014 compared to the same periods in 2013, respectively. The increases in timeline views were driven by a 23% increase in average MAUs in each period partially offset by a 7% decrease in the user engagement levels of MAUs, as measured by timeline views per MAU, in both the three and nine months ended September 30, 2014 compared to the same periods in 2013. The increase in

advertising revenue per timeline view was primarily driven by a 121% and 213% increase in ad engagements per timeline view, reflecting higher quality ads, improved prediction and targeting and media forward timelines, partially offset by a 17% and 39% decrease in average cost per ad engagement in the three and nine months ended September 30, 2014 compared to the same periods in 2013, respectively. The increases in ad engagements per timeline view, combined with the increases in timeline views, resulted in increases of 152% and 259% in the number of ad engagements in the three and nine months ended September 30, 2014 compared to the same periods in 2013, respectively. Advertising revenue also benefited from sales of our Promoted Products, and in particular, Promoted Tweets, on our mobile applications as well as from increases in international revenue in both the three and nine months ended September 30, 2014 as compared to the same periods in 2013.

In the three and nine months ended September 30, 2014, data licensing and other revenue increased by 171% and 112% compared to the three and nine months ended September 30, 2013, respectively. A substantial majority of the increase was attributable to mobile advertising exchange services.

Cost of Revenue

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014 (in thousands)	2013	% Change	2014 (in thousands)	2013	% Change
Cost of revenue	\$124,166	\$62,239	99 %	\$309,696	\$154,067	101 %
Cost of revenue as a percentage of revenue	34 %	37 %		34 %	36 %	

In the three months ended September 30, 2014, cost of revenue increased by \$61.9 million compared to the three months ended September 30, 2013. The increase was primarily attributable to a \$14.7 million increase in personnel-related costs, mainly driven by an increase in average employee headcount and recognition of stock-based compensation expense, a \$14.9 million increase in data center costs, networking and hosting related to our co-located facilities, a \$24.1 million increase in depreciation expense related to capital leases for additional server and networking equipment and amortization of acquired intangible assets, and a \$8.2 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.

In the nine months ended September 30, 2014, cost of revenue increased by \$155.6 million compared to the nine months ended September 30, 2013. The increase was primarily attributable to a \$46.9 million increase in personnel-related costs, mainly driven by an increase in average employee headcount and recognition of stock-based compensation expense, a \$42.1 million increase in data center costs, networking and hosting related to our co-located facilities, a \$51.8 million increase in depreciation expense related to capital leases for additional server and networking equipment and amortization of acquired intangible assets, and a \$14.8 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.

Research and Development

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014 (in thousands)	2013	% Change	2014 (in thousands)	2013	% Change
Research and development	\$183,342	\$87,307	110 %	\$509,828	\$199,144	156 %
Research and development as a percentage of revenue	51 %	52 %		55 %	47 %	

In the three months ended September 30, 2014, research and development expenses increased by \$96.0 million compared to the three months ended September 30, 2013. The increase was primarily attributable to a \$100.8 million increase in personnel-related costs, mainly driven by an increase in average employee headcount and recognition of stock-based compensation expense, and a \$6.9 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 \$12.2 million increase in capitalized costs associated with developing software for internal

use.

In the nine months ended September 30, 2014, research and development expenses increased by \$310.7 million compared to the nine months ended September 30, 2013. The increase was primarily attributable to a \$314.7 million increase in personnel-related costs, mainly driven by an increase in average employee headcount and recognition of stock-based compensation expense, and a \$24.5 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 \$30.2 million increase in capitalized costs associated with developing software for internal use.

Sales and Marketing

	Three Months Ended September 30,			Nine Months Ended September 30,			
	2014 (in thousands)	2013	% Change	2014 (in thousands)	2013	% Change	
Sales and marketing	\$164,015	\$61,214	168	\$410,511	\$138,911	196	%
Sales and marketing as a percentage of revenue	45	%	36	%	44	%	33

33

Edgar Filing: TWITTER, INC. - Form 10-Q

In the three months ended September 30, 2014, sales and marketing expenses increased by \$102.8 million compared to the three months ended September 30, 2013. The increase was primarily attributable to a \$68.1 million increase in personnel-related costs, mainly driven by an increase in average employee headcount and recognition of stock-based compensation expense, a \$22.6 million increase in marketing and sales-related expenses and a \$12.1 million increase in amortization of acquired intangible assets as well as allocated facilities and other supporting overhead expenses due to the continued expansion of our real estate footprint and increase in support functions.

In the nine months ended September 30, 2014, sales and marketing expenses increased by \$271.6 million compared to the nine months ended September 30, 2013. The increase was primarily attributable to a \$184.4 million increase in personnel-related costs, mainly driven by an increase in average employee headcount and recognition of stock-based compensation expense, a \$52.7 million increase in marketing and sales-related expenses and a \$34.5 million increase in amortization of acquired intangible assets as well as allocated facilities and other supporting overhead expenses due to the continued expansion of our real estate footprint and increase in support functions.

General and Administrative

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014 (in thousands)	2013	% Change	2014 (in thousands)	2013	% Change
General and administrative	\$51,174	\$21,152	142 %	\$134,602	\$56,248	139 %
General and administrative as a percentage of revenue	14 %	13 %		15 %	13 %	

In the three months ended September 30, 2014, general and administrative expense increased by \$30.0 million compared to the three months ended September 30, 2013. The increase was primarily attributable to a \$25.5 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 \$4.2 million in fees and costs for professional services, and a \$0.3 million increase in unallocated facilities and other supporting costs.

In the nine months ended September 30, 2014, general and administrative expenses increased by \$78.4 million compared to the nine months ended September 30, 2013. The increase was primarily attributable to a \$68.3 million increase in personnel-related costs, mainly driven by an increase in average employee headcount and recognition of stock-based compensation expense and an increase of \$11.4 million in fees and costs of professional services, offset by a \$1.3 million decrease in unallocated facilities and supporting costs, driven by slower headcount growth in the general and administrative function relative to other functional areas.

Other Income (Expense), Net

Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
2014	2013	2014	2013
(in thousands)		(in thousands)	

Other income (expense), net \$(8,079) \$818 \$(5,501) \$(1,730)

Other income (expense), net, consists primarily of foreign exchange gains and losses. We expect our foreign exchange gains and losses will vary depending upon movements in the underlying exchange rates.

Other income (expense), net, decreased by \$8.9 million and \$3.8 million in the three and nine months ended September 30, 2014, respectively, compared to the three and nine months ended September 30, 2013. The decreases were attributable to unfavorable foreign currency exchange impact from our foreign currency-denominated assets and liabilities.

Provision (Benefit) for Income Taxes

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2013	
	2014	2013	2014	2013
	(in thousands)		(in thousands)	
Provision (benefit) for income taxes	\$ 159	\$ 360	\$(4,218)	\$1,494

Our provision for income taxes in the three and nine months ended September 30, 2014 decreased by \$0.2 million and \$5.7 million, respectively, compared to a provision of \$0.4 million and \$1.5 million in the three and nine months ended September 30, 2013, respectively. The decrease was primarily due to the deferred tax benefits arising from acquisitions, partially offset by the increase in foreign and state income tax expenses.

Liquidity and Capital Resources

	Nine Months Ended September 30, 2014	
	2014	2013
	(in thousands)	
Consolidated Statements of Cash Flows Data:		
Net loss	\$(452,468)	\$(133,852)
Net cash provided by operating activities	38,478	4,266
Net cash used in investing activities	(235,710)	(8,883)
Net cash provided by (used in) financing activities	1,612,550	(43,430)

Our principal sources of liquidity are our cash, cash equivalents, and marketable securities. Our cash equivalents and marketable securities are invested in short-term and long-term interest-bearing obligations, including government and investment-grade debt securities and money market funds. In September 2014, we also received net proceeds of approximately \$1.77 billion from the issuance of the Notes, after deducting initial purchasers' discount and debt issuance costs. Concurrently with sale of the Notes, we entered into privately-negotiated convertible note hedge transactions with respect to our common stock for which we paid approximately \$387.5 million and sold warrants for which we received approximately \$275.1 million. We expect that we will incur additional interest expense for the term of the Notes, which will primarily consist of contractual interest expense related to the Notes and non-cash interest related to amortization of the debt discount.

As of September 30, 2014, we had \$3.65 billion of cash, cash equivalents and marketable securities, of which \$81.8 million was held by our foreign subsidiaries. If these funds are needed for our operations in the U.S., we may be required to accrue and pay U.S. taxes to repatriate these funds. However, our intent is to permanently reinvest these funds outside of the U.S. and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations. In addition, we have a revolving unsecured credit facility (described below) available to borrow up to \$1.0 billion. We believe that our existing cash and cash equivalents balance, and our credit facility, together with cash generated from operations and proceeds from the issuance of the Notes, will be sufficient to meet our working capital

and capital expenditure requirements for at least the next 12 months.

Our Pre-2013 RSUs vest upon the satisfaction of both a service condition and a performance condition. The service condition for the majority of the Pre-2013 RSUs is satisfied over a period of four years. The performance condition in connection with our Pre-2013 RSUs was satisfied in February 2014 pursuant to the terms of our 2007 Equity Incentive Plan. We elected to allow our employees who are not executive officers to sell shares of our common stock received upon the vesting and settlement of the Pre-2013 RSUs in February 2014 in the public market in order to satisfy their income tax obligations related to the vesting and settlement of such awards. In addition, we undertook a net settlement of vested Pre-2013 RSUs held by our executive officers upon satisfaction of the performance condition for the Pre-2013 RSUs and withheld shares and remitted income tax on behalf of the applicable executive officers of \$16.2 million in cash at the applicable minimum statutory rates for the nine months ended September 30, 2014. We may net settle RSUs in the future and use cash to pay employees' tax withholding obligations in connection with such settlements.

35

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 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 September 30, 2014, no amounts were drawn under the credit facility.

Operating Activities

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

Cash provided by operating activities in the nine months ended September 30, 2014 was \$38.5 million, an increase in cash inflow of \$34.2 million compared to the nine months ended September 30, 2013. Cash provided by operating activities was driven by a net loss of \$452.5 million, as adjusted for the exclusion of non-cash expenses totaling \$605.5 million, of which \$454.4 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 \$114.5 million.

Cash provided by operating activities in the nine months ended September 30, 2013 was \$4.3 million. Cash provided by operating activities was driven by a net loss of \$133.9 million, as adjusted for the exclusion of non-cash expenses totaling \$159.8 million and the effect of changes in working capital and other carrying balances that resulted in cash outflow of \$21.6 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 and acquisitions of businesses and purchases of intangible assets.

Cash used in investing activities in the nine months ended September 30, 2014 was \$235.7 million, an increase in cash outflow of \$226.8 million compared to the nine months ended September 30, 2013. The increase in cash outflow was due to an increase in the purchases of marketable securities of \$1.34 billion, an increase in cash used as acquisition consideration and purchases of intangible assets of \$157.1 million and an \$86.2 million increase in purchases of property and equipment and restricted cash. Such decreases in cash flow were partially offset by the increase of proceeds from sales and maturities of marketable securities of \$1.36 billion.

We anticipate making capital expenditures in 2014 of approximately \$360 million to \$390 million, a portion of which we will 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 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 provided by financing activities in the nine months ended September 30, 2014 was \$1.61 billion, an increase in cash inflow of \$1.66 billion compared to the nine months ended September 30, 2013. The increase in cash inflow was due to the issuance of convertible senior notes net of convertible note hedges, warrants and initial issuance discount, an increase in proceeds from option exercises and purchases under our ESPP, partially offset by tax payments related to net share settlement of equity awards and an increase in repayments of capital lease obligations.

Off Balance Sheet Arrangements

We do not have any off-balance sheet arrangements and did not have any such arrangements as of September 30, 2014.

Contractual Obligations

Our principal commitments consist of obligations under the Notes, capital and operating leases for equipment, office space and co-located data center facilities. The following table summarizes our commitments to settle contractual obligations in cash as of September 30, 2014.

	Payments Due by Period				More than 5 years
	Total	Less than 1 year	1-3 years	3-5 years	
	(In thousands)				
2019 Notes	\$911,244	\$2,238	\$4,506	\$904,500	\$—
2021 Notes	963,001	8,951	18,025	18,000	918,025
Operating lease obligations	928,265	22,075	241,343	270,045	394,802
Capital lease obligations	246,274	31,863	181,281	33,130	—
Total contractual obligations	\$3,048,784	\$65,127	\$445,155	\$1,225,675	\$1,312,827

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. In doing so, we have to make estimates and assumptions that affect our reported amounts of assets, liabilities, revenue and expenses, as well as related disclosure of contingent assets and liabilities. To the extent that there are material differences between these estimates and actual results, our financial condition or operating results would be affected. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. We refer to accounting estimates of this type as critical accounting policies and estimates. Please refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in Part II, Item 7 of our Annual Report on Form 10-K for our fiscal year ended December 31, 2013 for a more complete discussion of our critical accounting policies and estimates.

Stock-Based Compensation

Stock-based compensation expense for employees is recorded net of estimated forfeiture on a straight-line basis over the requisite service period. Stock options granted have a contractual term of ten years and generally vest over four years. Stock-based compensation expense for other service providers is remeasured at each reporting period as services are performed.

Our stock-based compensation expense for RSUs is estimated at the grant date based on the fair value of our common stock. Under our 2007 Plan, we have granted RSUs to domestic and international employees and other service providers. The Pre-2013 RSUs vest upon the satisfaction of both a service condition and a performance condition. The service condition for a majority of the Pre-2013 RSUs is satisfied over a period of four years. The performance condition was satisfied in February 2014 pursuant to the terms of our equity plan.

Post-2013 RSUs are not subject to a performance condition in order to vest. The service condition for a majority of the Post-2013 RSUs is satisfied over a period of four years. Under the terms of our 2007 Plan, the shares underlying Post-2013 RSUs that satisfy the service condition are to be delivered to holders no later than the fifteenth day of the third month following the end of the calendar year the service condition is satisfied. The stock-based compensation expense associated with the Post-2013 RSUs is recorded net of estimated forfeiture on a straight-line basis over the requisite service period.

Summary of Projected Stock-Based Compensation Expense, Net of Estimated Forfeitures

	2014	2015	2016	Beyond 2016	Total
	(Unaudited, in thousands)				
Pre-2013 RSUs	\$18,472	\$41,243	\$8,760	\$499	\$68,974
Post-2013 RSUs	133,355	507,976	411,289	365,355	1,417,975
Restricted Common Stock	14,237	47,295	31,669	21,476	114,677
Stock Options	5,518	18,288	10,305	5,612	39,723
ESPP	5,028	786	—	—	5,814
Total	\$176,610	\$615,588	\$462,023	\$392,942	\$1,647,163

Recent Accounting Pronouncements

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Fluctuation Risk

Our investment portfolio mainly consists of short-term interest-bearing obligations, including government and investment-grade debt securities and money market funds. These securities are classified as available-for-sale and, consequently, are recorded on the consolidated balance sheets at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income (loss), net of tax. 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 September 30, 2014, a hypothetical increase in interest rates of 100 basis points would result in a decrease of approximately \$6.1 million in the fair value of our available-for-sale securities. We currently do not hedge these interest rate exposures.

In September 2014, we issued Notes with aggregate principal amount of \$1.80 billion. We carry the Notes at face value less amortized discount on the consolidated balance sheet. Since the Notes bear interest at fixed rates, we have no financial statement risk associated with changes in interest rates. However, the fair value of the Notes changes when the market price of our stock fluctuates.

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 certain current asset and current 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 losses were \$8.1 million and \$6.4 million for the three and nine months ended September 30, 2014, respectively. Foreign currency gains and losses were not significant in the three and nine months ended September 30, 2013. At this time we do not, but we may in the future, enter into derivatives or other financial instruments in an attempt to hedge our foreign currency exchange risk. It is difficult to predict the impact hedging activities would have on our results of operations.

Translation Exposure

We are also exposed to foreign exchange rate fluctuations as we convert the financial statements of our foreign subsidiaries into U.S. dollars in consolidation. If there is a change in foreign currency exchange rates, 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 income (loss) which is part of stockholders' equity.

Revenue and related expenses generated from our international subsidiaries are generally denominated in the currencies of the local countries. Primary currencies include the Euro, British Pound and Japanese Yen. The statements of operations of our international operations are translated into U.S. dollars at exchange rates indicative of market rates during each applicable period. To the extent the U.S. dollar strengthens against foreign currencies, the translation of these foreign currency-denominated transactions would result in reduced consolidated revenue and operating expenses. Conversely, our consolidated revenue and operating expenses would increase if the U.S. dollar weakens against foreign currencies. Foreign currency translation gains and losses were not significant in the three and nine months ended September 30, 2014 and September 30, 2013.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any

controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

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

PART II – OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

We are currently involved in, and will likely 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 at this time 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, operating results or prospects.

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 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information in this Quarterly Report on Form 10-Q, including the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes, before making a decision to invest in our common stock. The risks and uncertainties described below may not be the only ones we face. If any of the risks actually occur, our business, financial condition, operating results 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 declines, 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 284 million average MAUs in the three months ended September 30, 2014, representing a 23% increase from 232 million average MAUs in the three months ended September 30, 2013. 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, France, India, Japan, Saudi Arabia and South Africa, to continue to be higher than our user growth rate in the United States. To the extent our user growth rate slows, our success will become increasingly dependent on our ability to increase levels of user engagement and ad engagement on Twitter.

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

40

- 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;
- 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 present users 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 or other factors;
- we are unable to combat spam or other hostile or inappropriate usage on our platform;
- 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.

If we are unable to increase the size of our user base, user growth rate or user engagement, or if they decline, this could result in our products and services being less attractive to potential new users, as well as advertisers, 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 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 89% of our revenue from advertising in both the fiscal year ended December 31, 2013 and the nine months ended September 30, 2014. 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. Our advertising revenue could be adversely affected by a number of other factors, including:

- decreases in user engagement with Twitter and with the ads on our platform;
- decreases in the size of our user base or user growth rate;
- if we are unable to demonstrate the value of our Promoted Products to advertisers and advertising agencies or if we are unable to measure the value of our Promoted Products in a manner which advertisers and advertising agencies find useful;
- if 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 in-app mobile ad exchange;
- continuing decreases in the cost per ad engagement;
- failure to effectively monetize our growing international user base;
- 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, such as television targeting and real-time video clips embedded in Tweets, 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;
- adverse media reports or other negative publicity involving us or other companies in our industry;
- our inability to create new products and services that sustain or increase the value of our advertising services to both our advertisers and our users;
- 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 new 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), 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 smaller companies, such as Sina Weibo, LINE and Kakao, each of which is based in Asia.

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

- the popularity, usefulness, ease of use, performance and reliability of our products and services compared to those of our competitors;
- the amount, quality and timeliness of content generated by our users;
- the timing and market acceptance of our products and services;
- the continued adoption of our products and services internationally;
- our ability, and 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;
- 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 ads 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. 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 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 for 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;
- 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;
- fluctuations in spending by our advertisers, including as a result of seasonality and extraordinary news events, or other factors;
- changes in the mix of geographic location of our users and advertisers;
- the number of ad engagements by users;
- the pricing of our ads and other 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. We believe our rapid growth may understate the potential seasonality of our business. 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.

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, 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.

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. 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 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. Additionally, in certain emerging markets, such as India, many users access our products and services through feature phones with limited functionality, rather than through smartphones, our website or desktop applications. This 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 on which 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 78% of our average MAUs in the three months ended September 30, 2014, but our international revenue, as determined based on the billing location of our advertisers, was only 34% of our consolidated revenue in the three months ended September 30, 2014. Our inability to successfully expand internationally could adversely affect our business, financial condition and operating results.

We have a limited operating history in a new and unproven market for our platform, which makes it difficult to evaluate our future prospects and may increase the risk that we will not be successful.

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. 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 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 a limited operating history, as we only began to generate revenue in 2009 and we started to sell our Promoted Products in 2010, which makes it difficult to effectively assess our future prospects or forecast our future results. You should consider our business and prospects in light of the risks and challenges we encounter or may encounter in this developing and rapidly evolving market. These risks and challenges include our ability to, among other things:

- increase our number of users and user engagement;
- successfully expand our business, especially internationally;

develop a reliable, scalable, secure, high-performance technology infrastructure that can efficiently handle increased usage globally;

·convince advertisers of the benefits of our Promoted Products compared to alternative forms of advertising;

·develop and deploy new features, products and services;

·successfully compete with other companies, some of which have substantially greater resources and market power than us, that are currently in, or may in the future enter, our industry, or duplicate the features of our products and services;

·attract, retain and motivate talented employees, particularly engineers, designers and product managers;

46

- process, store, protect and use personal data in compliance with governmental regulations, contractual obligations and other obligations related to privacy and security;
- continue to earn and preserve our users' trust, including with respect to their private personal information; and
- defend ourselves against litigation, regulatory, intellectual property, privacy or other claims.

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 September 30, 2014, we had an accumulated deficit of \$1.45 billion. Although our revenue has grown rapidly, increasing from \$28.3 million in 2010 to \$664.9 million in 2013, we expect that our revenue growth rate will slow in the future as a result of a variety of factors, including the gradual slowdown 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;
- 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.

In addition, we have granted stock options and RSUs to our employees. RSUs granted to domestic employees before February 2013 and all RSUs granted to international employees, or the Pre-2013 RSUs, vest upon the satisfaction of both a service condition and a performance condition. The service condition for a majority of the Pre-2013 RSUs is satisfied over a period of four years. The performance condition was satisfied in February 2014 pursuant to the terms of the Pre-2013 RSUs.

We elected to allow our employees who are not executive officers to sell shares of our common stock received upon the vesting and settlement of the Pre-2013 RSUs in February 2014 in the public market in order to satisfy their income tax obligations related to the vesting and settlement of such awards. In addition, we undertook a net settlement of vested Pre-2013 RSUs held by our executive officers upon satisfaction of the performance condition for the Pre-2013 RSUs and withheld shares and remitted income tax on behalf of the applicable executive officers of \$16.2 million in cash at the applicable minimum statutory rates for the nine months ended September 30, 2014.

As of September 30, 2014, we had unrecognized stock-based compensation expense of approximately \$1.65 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 will have a significant negative impact on our ability to generate net income on a GAAP basis in 2014.

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 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 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. For example, access to Twitter is blocked in China and was blocked in Turkey for a few weeks in the first quarter of 2014. 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. 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, services and initiatives and changes to existing products, services and initiatives could fail to attract users and advertisers or generate revenue.

Our ability to increase the size and engagement of our user base, attract 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 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 helps users discover new music and artists based on Twitter data profiles. If new or enhanced products or services fail to engage users 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 and advertisers. In the future, we may invest in new products, 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 continue to experience rapid growth in our headcount and operations, which will continue to place significant demands on our management, operational and financial infrastructure. As of September 30, 2014, we had approximately 3,600 employees, an increase of over 3,400 employees since January 1, 2010. We intend to continue to make substantial 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 grow, 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 product, Vine. 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 in order to enable us to 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 newly-public company we expect to 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.

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. In March 2014, we experienced unexpected complications that made Twitter unavailable for many users for approximately fifteen minutes. We rolled back the change that caused such complications as soon as we identified the issue and Twitter was fully recovered within approximately forty-five minutes of the initial service disruption. 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. For example, in July 2012, due to the failure of two parallel systems at nearly the same time in one of our data centers, Twitter became inaccessible for approximately two hours. 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 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.

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 if they consider us to be in violation of their laws 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.

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 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. For example, service outages on Twitter typically result in widespread media reports. 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.

50

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. In 2012, we launched Twitter Cards, which allow platform partners to ensure that whenever they or any user tweets from their websites or applications, the Tweet will automatically include rich content like a photo, a video, a sound clip, an article summary or information about a product, and make it instantly accessible to any other user on Twitter. Twitter Cards allow platform partners to create lightweight interactive applications to promote their content or their products. The availability and development of these applications and content depends on platform partners' perceptions and analysis of the relative benefits of developing applications and content for our products and services. If platform partners focus their efforts on other platforms, 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.

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 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 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 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 local websites, mobile applications and services that provide real-time communications, such as Sina Weibo in China, LINE in Japan and Kakao in South Korea, 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, 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;

51

- 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, we experienced a service outage in June 2012 during which Twitter was inaccessible for approximately two hours as a result of a cascading software bug in one of our infrastructure components. 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, 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 and could be interpreted or applied in ways that could harm our business, particularly in the new and rapidly evolving industry in which we operate. The introduction of new products or services may subject us to additional laws and regulations. In addition, 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, a European Parliament Inquiry has recently indicated that it will recommend suspension of the EU – U.S. Safe Harbor Framework as part of this regulation. 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. 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. Having additional personal information may subject us to additional regulation. Further, it is difficult to predict how existing laws and regulations will be applied to our business and the new laws and regulations to which we may become subject, and it is possible that they may be interpreted and applied in a manner that is inconsistent from country to country and inconsistent with our current policies and practices. These existing and proposed laws and regulations can be costly to comply with and can delay or impede the development of new products and services, result in negative publicity, significantly increase our operating costs, require significant time and attention of management and technical personnel and subject us to inquiries or investigations, claims or other remedies, including fines or demands that we modify or cease existing business practices.

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, 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 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.

Even though Twitter is a global platform for public self-expression and conversation, user trust regarding privacy is important to the growth of users and the increase in user engagement on our platform, and privacy concerns relating to our products and services could damage our reputation and deter current and potential users and advertisers from using Twitter.

From time to time, concerns have been expressed by governments, regulators and others about whether our products, services or practices compromise the privacy of users and others. Concerns about, governmental or regulatory actions involving our practices with regard to the collection, use, disclosure or security of personal information or other privacy-related matters, even if unfounded, could damage our reputation, cause us to lose users and advertisers and adversely affect our operating results. 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 comply may result, and in some cases has resulted, in inquiries and other proceedings or actions against us by governments, regulators or others, as well as negative publicity and damage to our reputation and brand, each of which could cause us to lose users and advertisers, which could have an adverse effect on our business.

Any systems failure or compromise of our security that results in the unauthorized access to or release of our users' or advertisers' data could significantly limit the adoption of our products and services, as well as harm our reputation and brand and, therefore, our business. In March 2014, we were alerted to, and fixed, a bug in our system that, for approximately 94,000 protected accounts under rare circumstances, allowed non-approved followers to receive protected tweets via SMS or push notifications since November 2013. We expect to continue to expend significant resources to protect against security breaches. The risk that these types of events could seriously harm our business is likely to increase as we expand the number of products and services we offer, increase the size of our user base and operate in more countries.

Governments and regulators around the world are considering a number of legislative and regulatory proposals concerning data protection and privacy. In addition, the interpretation and application of consumer and data protection laws or regulations in the United States, Europe and elsewhere are often uncertain and in flux, and in some cases, laws or regulations in one country may be inconsistent with, or contrary to, those of another country. It is possible that these laws and regulations may be interpreted and applied in a manner that is inconsistent with our practices. If so, in addition to the possibility of fines, this could result in an order requiring that we change our practices, which could have an adverse effect on our business and operating results. Complying with new laws and regulations could cause us to incur substantial costs or require us to change our business practices in a manner materially adverse to our business.

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 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. 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. Any such breach or unauthorized access could result in significant legal and financial exposure, damage to our reputation and a loss of confidence in the security of our

products and services that could have an adverse effect on our business and operating results. 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, we could lose users and advertisers and we may incur significant legal and financial exposure, including legal claims and regulatory fines and penalties. Any of these actions could have a material and adverse effect on our business, reputation and operating results.

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

We have faced and will continue to face claims relating to content that is published or made available through our products and services or third-party products or services. In particular, the nature of our business exposes us to claims related to defamation, intellectual property rights, rights of publicity and privacy, illegal content, content regulation and personal injury torts. The laws relating to the liability of providers of online products or services for activities of their users remains somewhat unsettled, both within the United States and internationally. This risk may be enhanced in certain jurisdictions outside the United States where we may be less protected under local laws than we are in the United States. In addition, the public nature of communications on our network exposes us to risks arising from the creation of impersonation accounts intended to be attributed to our users or advertisers. We could incur significant costs investigating and defending these claims. If we incur costs or liability as a result of these events occurring, 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 for us. 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 September 30, 2014, we had 965 issued U.S. patents. 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. 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 aggressively 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. In this regard, we received a letter from International Business Machines Corporation, or IBM, alleging that we infringe on at least three U.S. patents held by IBM, and inviting us to negotiate

a business resolution of the allegations. In December 2013, we acquired over 900 patents from IBM, which significantly increases the size of our patent portfolio and entered into a patent cross-license. Further, from time to time we may introduce new products 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 or discontinue use of the technology. The development or procurement of alternative non-infringing technology could require significant effort and expense or may not be feasible. 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 can lead to 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. Additionally, because any software source code we contribute to open source projects is publicly available, our ability to protect our intellectual property rights with respect to such software source code may be limited or lost entirely, and we are unable to prevent our competitors or others from using such contributed software source code. 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 numbers of our active users and timeline views are 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 Quarterly Report on Form 10-Q may be affected by this activity. The impact of this automatic activity on our metrics varies by geography because mobile application usage varies in different regions of the world. In addition, our data regarding user geographic location is based on the IP address 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 of such user's engagement on our platform.

We present and discuss timeline views in this Quarterly Report on Form 10-Q. We have estimated a small percentage of timeline views in the three months ended September 30, 2013 to account for certain timeline views that were logged incorrectly during the quarter as a result of a product update. We believe this estimate to be reasonable, but the actual number could differ from our estimate. We present and discuss our total audience based on both internal metrics and data from Google Analytics, which measures unique visitors to our properties.

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. 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.

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 expand and retain our organization with 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 may be 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 add and retain employees, our ability to achieve our strategic objectives will be adversely impacted, and our business will be harmed.

58

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 September 30, 2014, we increased the size of our workforce by more than 3,400 full-time employees, and we expect to continue to hire aggressively as we expand. 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. Our transition from a private company to a public company may result in a change to our corporate culture, which could harm our business.

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, 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. For example, Google has integrated its social networking offerings, including Google+, with certain of its products, including search, which has negatively impacted the organic search ranking of our webpages. 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, smartphones, handheld computers such as net books and tablets, video game consoles and television set-top devices, has increased dramatically in the past few years. In the three months ended September 30, 2014, 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. 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. It is difficult to predict the problems we may encounter in adapting our products and services and developing competitive new products and services that are compatible with new devices or platforms. 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 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 Vine Labs, Inc., a mobile application that enables users to create and distribute videos that are up to six seconds in length, MoPub, Inc., a mobile-focused advertising exchange and Gnip, Inc., a company that provides social data and formerly a Twitter data partner. 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;
- coordination of research and development and sales and marketing functions;
- retention of key employees from the acquired company;
- cultural challenges associated with integrating employees from the acquired company into our organization;
- integration of the acquired company's accounting, management information, human resources and other administrative systems;
- 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 write-off 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. We expect that the requirements of these rules and regulations will continue to increase our legal, accounting and financial compliance costs, make some activities more difficult, time consuming and costly, and place significant strain on our personnel, systems and resources.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are continuing to develop and refine our disclosure controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we will file with the SEC is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our principal executive and financial officers. We are also continuing to improve our 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.

Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business. Further, weaknesses in our disclosure controls or our internal control over financial reporting may be discovered in the future. Any failure to develop or maintain effective controls, or any difficulties encountered in their implementation or improvement, could harm our operating results or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements for prior periods. Any failure to implement and maintain effective internal control over financial reporting also could adversely affect the results of management evaluations and independent registered public accounting firm audits of our internal control over financial reporting that we will eventually be required to include in our periodic reports that will be filed with the SEC. Ineffective disclosure controls and procedures and internal control over financial reporting 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.

We are not currently required to comply with the SEC rules that implement Section 404 of the Sarbanes-Oxley Act, or Section 404, and are therefore not required to make a formal assessment of the effectiveness of our internal control over financial reporting for that purpose. However, beginning with our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, we will be required to furnish an annual management report on the effectiveness of our internal control over financial reporting pursuant to Section 404. This assessment will need to disclose any material weaknesses identified by our management in our internal control over financial reporting. Additionally, our independent registered public accounting firm is not required to audit the effectiveness of our internal control over financial reporting until after we are no longer an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our internal control over financial reporting is documented, designed or operating.

Any failure to maintain effective disclosure controls and internal control over financial reporting could have a material and adverse effect on our business and operating results, and cause a decline in the price of our common stock.

We are an emerging growth company, and our decision to comply only with certain reduced reporting and disclosure requirements applicable to emerging growth companies could make our common stock less attractive to investors.

We are an emerging growth company, and, for as long as we continue to be an emerging growth company, we have chosen to take advantage of certain exemptions from various reporting requirements applicable to other public companies but not to “emerging growth companies,” including, but not limited to, not being required to have our independent registered public accounting firm audit our internal control over financial reporting under Section 404, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We will cease to be an emerging growth company, as defined in the JOBS Act, at the end of this fiscal year. We cannot predict if or to what extent investors will find our common stock less attractive given that we have chosen to rely on some of these exemptions this year. If some investors find our common stock less attractive as a result of any choices to reduce future disclosure, there may be a less active trading market for our common stock and the price of our common stock may be more volatile.

Under the JOBS Act, emerging growth companies can also delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this accommodation allowing for delayed adoption of new or revised accounting standards, and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

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. Consequently, exchange rate fluctuations between the U.S. dollar and other currencies could have a material impact on our operating results.

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. 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 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 September 30, 2014, we had recorded a total of \$738.0 million of goodwill and intangible assets related to our acquisitions. 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, 2013, we had U.S. federal net operating loss carryforwards of approximately \$429.3 million and state net operating loss carryforwards of approximately \$268.3 million. 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 our initial public offering or 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

Our executive officers, directors and holders of 5% or more of our common stock collectively beneficially own approximately 45.2% of the outstanding shares of our common stock and continue to have substantial control over us, which will limit your ability to influence the outcome of important transactions, including a change in control.

Our executive officers, directors and each of our stockholders who own 5% or more of our outstanding common stock and their affiliates, in the aggregate, beneficially own approximately 45.2% of the outstanding shares of our common stock, based on the number of shares outstanding as of September 30, 2014. As a result, these stockholders, if acting together, are able to influence or control matters requiring approval by our stockholders, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. They may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. This concentration of ownership may have the effect of delaying, preventing or deterring a change in control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

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

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

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

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

Additionally, if a fundamental change occurs prior to the relevant maturity date of the applicable series of the Notes, holders of such Notes will have the right, at their option, to require us to repurchase all or a portion of their Notes and we will in some cases be required to increase the relevant conversion rate for a holder that elects to convert its Notes. Furthermore, the indentures for the Notes prohibit us from engaging in certain mergers or acquisitions unless, among other things, the surviving entity assumes our obligations under the Notes. These and other provisions in the indentures could deter or prevent a third -party from acquiring us even when the acquisition may be favorable to our stockholders or holders of the Notes.

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.

63

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 subject to wide fluctuations 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 \$29.51, through September 30, 2014. In addition to the factors discussed in this “Risk Factors” section and elsewhere in this Quarterly Report on Form 10-Q, factors that could cause fluctuations in the market price of our common stock include the following:

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

Because the Notes are convertible into shares of our common stock, volatility or depressed prices of our common stock could have a similar effect on the trading price of our Notes. The price of our common stock could also be affected by possible sales of our common stock by investors who view the Notes as a more attractive means of equity participation in us and by hedging or arbitrage trading activity that we expect to develop involving our common stock. This trading activity could, in turn, affect the trading price of the Notes.

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.

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. Consequently, investors may need to rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking cash dividends should not purchase our common stock.

Risks Related to the Notes

Servicing the 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 the Notes, and our future debt may contain limitations on our ability to pay cash upon conversion or repurchase of the Notes.

As of September 30, 2014, we had a total par value of \$1.80 billion of outstanding Notes. Holders of the notes will have the right 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 have 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.

The conditional conversion feature of the Notes, if triggered, may adversely affect our financial condition and operating results.

If the conditional conversion feature of the Notes is triggered, holders of the Notes will be entitled to convert the Notes at any time during specified periods at their option. If one or more holders elect to convert their Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

The note hedge and warrant transactions may affect the value of the Notes and 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.

In connection with establishing their initial hedge of the note hedge and warrant transactions, the option counterparties or their respective affiliates have purchased shares of our common stock and/or entered into various derivative transactions with respect to our common stock following the pricing of the Notes. In addition, the option counterparties or their respective affiliates may modify their 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 or the Notes.

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 and the value of the Notes.

We are subject to counterparty risk with respect to the note hedge transactions.

The option counterparties are financial institutions or affiliates of financial institutions, and we will be subject to the risk that these option counterparties may default under the note hedge transactions. Our exposure to the credit risk of the option counterparties will not be secured by any collateral. If one or more of the option counterparties to one or more of our note hedge transactions becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at the time under those transactions. Our exposure will depend on many factors but, generally, the increase in our exposure will be correlated to the increase in the market price of our common stock and in the volatility of the market price of our common stock. In addition, upon a default by one of the option counterparties, we may suffer adverse tax consequences and dilution with respect to our common stock. We can provide no assurances as to the financial stability or viability of any of the option counterparties.

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

Unregistered Sales of Equity Securities

During the three months ended September 30, 2014, we issued a total of 3,549,375 shares of our common stock in connection with the acquisition of four companies, all in private transactions exempt from the registration requirements of the Securities Act pursuant to Section 4(2) under the Securities Act.

Use of Proceeds

On November 6, 2013, the Registration Statement on Form S-1 (File No. 333-191552) for our initial public offering of our common stock was declared effective by the SEC, pursuant to which we sold 80,500,000 shares of our common stock at a public offering price of \$26.00 per share for an aggregate offering price of approximately \$2.09 billion. There has been no material change in the planned use of proceeds from our initial public offering as described in our final prospectus filed with the SEC on November 7, 2013 pursuant to Rule 424(b)(4).

Issuer Purchases of Equity Securities

None

Item 6. EXHIBITS

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

SIGNATURES

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

TWITTER, INC.

Date: November 6, 2014 By: /s/ Richard Costolo
Richard Costolo
Chief Executive Officer
(Principal Executive Officer)

Date: November 6, 2014 By: /s/ Anthony Noto
Anthony Noto
Chief Financial Officer
(Principal Financial Officer)

Edgar Filing: TWITTER, INC. - Form 10-Q

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference		
		Form	File No.	Exhibit Filing Date
4.1	Indenture, dated September 17, 2014, between Twitter, Inc. and U.S. Bank National Association.	8-K		4.1 September 17, 2014
4.2	Form of Global 0.25% Convertible Senior Note due 2019 (included in Exhibit 4.1)	8-K		4.2 September 17, 2014
4.3	Indenture, dated September 17, 2014, between Twitter, Inc. and U.S. Bank National Association.	8-K		4.3 September 17, 2014
4.4	Form of Global 1.00% Convertible Senior Note due 2021 (included in Exhibit 4.3)	8-K		4.4 September 17, 2014
10.1	Offer Letter between the Company and Anthony Noto, dated as of June 30, 2014.	8-K		10.1 July 1, 2014
10.2	Change of Control Severance Policy Participation Agreement between the Company and Anthony Noto, dated as of June 30, 2014.	8-K		10.2 July 1, 2014
10.3	Amendment No. 1, dated September 10, 2014, to the Revolving Credit Agreement, dated October 22, 2013, among Twitter, Inc., Morgan Stanley Senior Funding, Inc., as administrative agent, and the lenders from time to time party thereto.	8-K		10.1 September 10, 2014
10.4	Purchase Agreement, dated September 11, 2014, by and among Twitter, Inc. and Goldman, Sachs & Co. and Morgan Stanley & Co. LLC, as representatives of the initial purchasers named therein.	8-K		10.1 September 17, 2014
10.5	Form of Convertible Note Hedge Confirmation.	8-K		10.2 September 17, 2014
10.6	Form of Warrant Confirmation.	8-K		10.3 September 17, 2014
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.			
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.			

32.1† Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS XBRL Instance Document.

101.SCH XBRL Taxonomy Schema Linkbase Document.

101.CAL XBRL Taxonomy Definition Linkbase Document.

101.DEF XBRL Taxonomy Calculation Linkbase Document.

101.LAB XBRL Taxonomy Labels Linkbase Document.

101.PRE XBRL Taxonomy Presentation Linkbase Document.

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