Annual Report

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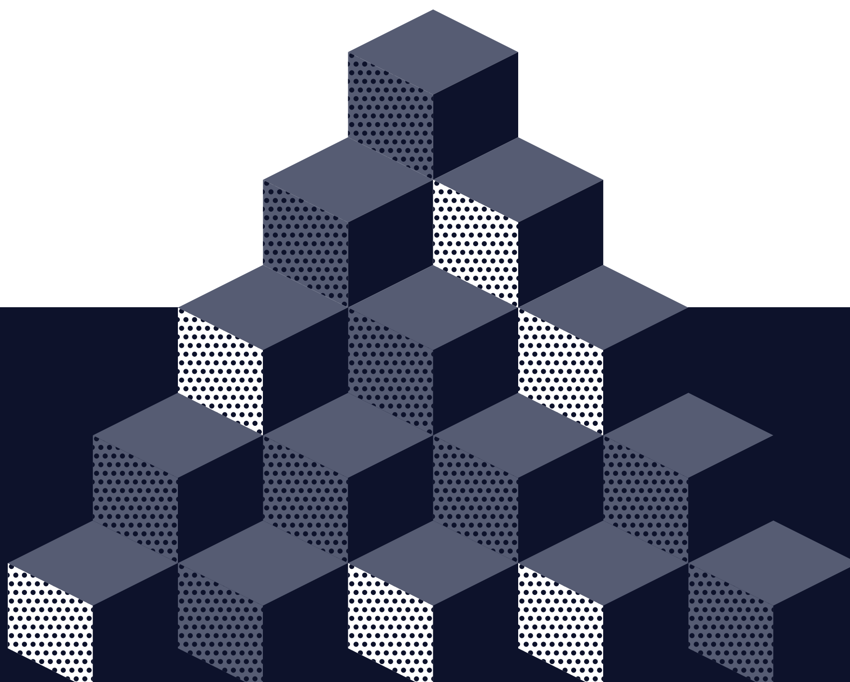
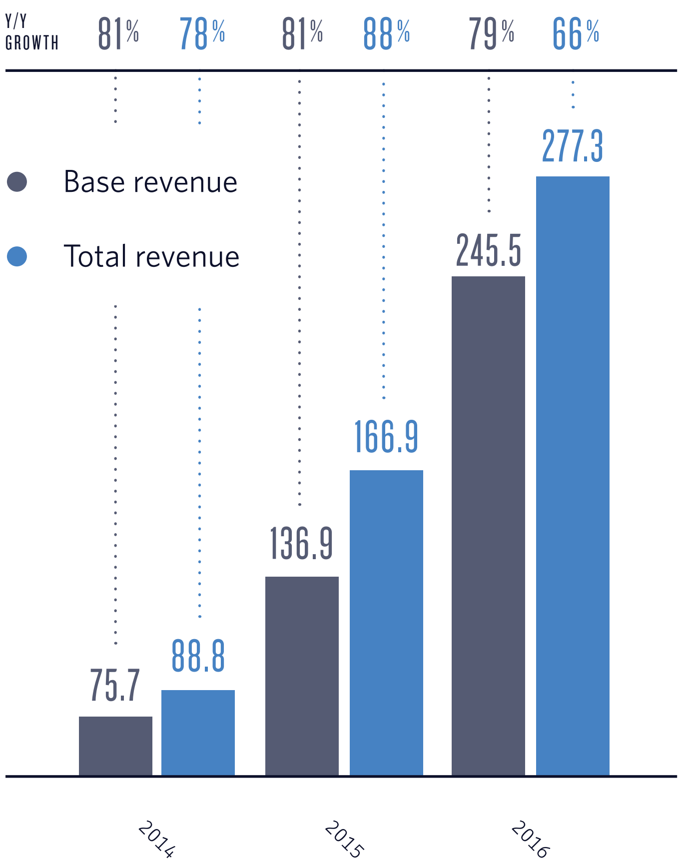


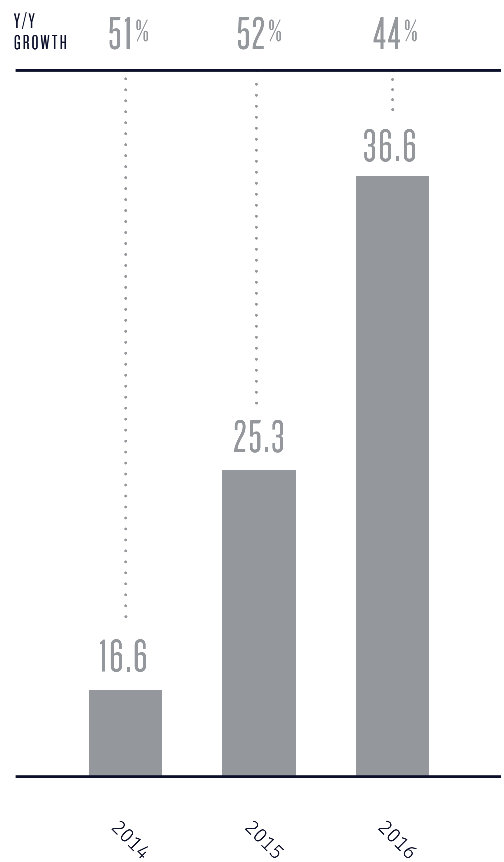
twilio

KEY METRICS

REVENUE ($M)[1]



ACTIVE CUSTOMER ACCOUNTS (K)[2]



DOLLAR-BASED NET EXPANSION RATE[3]

153%	155%	161%
2014	2015	2016

1 Revenue ($M) - For the twelve months ended December 31
2 Active Customer Accounts (K) - As of December 31
3 Dollar-Based Net Expansion Rate - For the twelve months ended December 31

Dear Fellow Shareholders,

It's a pleasure to write this first annual shareholder letter, as 2016 was a stellar year for Twilio. Aside from the obvious - becoming a public company - it was a year of tremendous growth and a number of firsts. While we are proud of what we accomplished in 2016, we know it's only Day One of our opportunity. So let me take a moment to talk about the past year, as well as the road ahead.

2016 RECAP

We've built Twilio with our platform business model by putting the developer first, and following up with sales engagement to help customers grow, to cross-sell and upsell those customers. Our results in 2016 are a result of the amazing work and dedication by Twilions across the globe.

Our core businesses, voice and messaging, continued to drive our rapid growth in 2016. Overall, we grew our Total Revenue by 66% and our Base Revenue, the key customer metric we're focused on, by 79% - all while showing improvements on operating margin as well. In addition, we also laid the foundation for future growth by launching an important new generation of products, innovations such as Twilio Programmable Wireless, Twilio Enterprise Plan, and Notify.

Customers come to Twilio both for the variety of use cases we can enable and for the unparalleled quality we deliver across our platform. We have 18 different communications APIs currently, all delivered on a common platform. At our current pace, we now deploy to production over 18,000 product enhancements on an annualized basis. We invest a substantial amount of money in R&D, not only with an emphasis on breadth and depth of functionality, but with an unrelenting focus on ''agility with resiliency'' across our organization. Our high-performance software development and operations teams have been a tremendous asset to Twilio and are a key driver behind our leadership position in the market. In 2016, we attained the coveted 99.999% API uptime (for the second year in a row) along with this rapid pace of development. We achieved that cadence of innovation and availability while earning the ISO 27001 certification - an important signal to security-conscious enterprises of our operational excellence. All of this is a testament to the ability of our engineering team of more than 400 talented software developers located across three continents and six development centers.

As we've upleveled our execution, we've grown both the size and experience of our team, growing from 521 employees to 730 Twilions during 2016. We expanded the board of directors with the additions of experienced technology leaders Erika Rottenberg and Elena Donio. More recently, we added George Hu, former COO of Salesforce, to our executive team as Chief Operating Officer leading all of our go-to-market activities as we look to further scale the company and capitalize on the market opportunity ahead of us.

These factors and more led IDC to declare Twilio the leader in their 2016 Cloud Communications Marketscape report -- an important recognition of our position in the market.

LOOKING AHEAD - OUR STRATEGY

Our mission is to Fuel the Future of Communications. How the world communicates is going through an unprecedented transition as communications technology moves from its legacy in hardware and physical networks to its future in software. To succeed in our mission, we work to migrate the existing workloads of communication onto Twilio, and ensure the future workloads of communication are invented on Twilio. It's no easy task, so we've developed a Platform Strategy to guide our path. First, we build broad platforms that are widely applicable across companies and industries, priced as building blocks, and designed to enable developers' creativity to flourish across the widest set of applications. Second, based on the key applications that emerge from that platform, we execute a strategy to drive deep penetration in each one. Third, we repeat this process with additional developer platforms.

However, we're very aware that strategy without solving customer problems is pointless, so we continually remind ourselves what customers need from us as we execute our Platform Strategy. We're focused relentlessly on these customer-first values. First, we should always work to **get customers to production as quickly** as possible, because launching production-grade systems, and having them work flawlessly, is the ultimate goal of any customer. Second, we must demonstrate **superior quality in our products** because as a platform, our customers' applications of Twilio are only as good as our own execution. Last, we must **provide customers with choices** because there is no single definition of customer requirements, and there is no correct approach to how they build in a market as vast as the future of communications! These are the key customer needs our strategy is based upon.

When we talk to our customers, whether they're software-first companies or traditional enterprises, we hear a common theme.

We hear that with Twilio, they get unparalleled flexibility not afforded by other software vendors whether legacy on-premises or in the cloud. That's because when a traditional software company builds an application, they have to make many assumptions about how customers will use that software and end up designing for the average of all these needs. However, each company has a unique customer experience they're trying to create. This is more accentuated now because your customer experience - how you interact with your customers - is your differentiating factor. Average - by definition - isn't differentiated.

The goal of every interaction a company has with its customers is to successfully propel the customer's journey. Whether that interaction is with a system producing useful and timely alerts, with a call center employee who's empowered with information to help the customer, or whether it's with a mobile worker or contractor, each of these touch points adds to the customer journey.

The legacy vendors, selling inflexible monolithic software applications, solve this problem with endless professional service engagements. Customers we meet coming from that world feel powerless to own their own roadmaps. We want to give them back their customer-facing roadmaps.

In industry after industry, companies are investing in software developers to solve this problem and own their roadmap. As they do, we're proud to partner with them. Our goal is to enable companies to map the journey of their end customers with Twilio, customizing the communications at the heart of these relationships in an effort to optimize the customer experience. We see that happening with customers of all kinds, whether technology-first companies like Uber, Zillow, Salesforce or Amazon Web Services, or enterprises like Nordstrom, Nike, and ING.

This is still Day One in the transformation of one of the world's largest industries - communications - and we are thrilled to be leading the charge. Software is transforming how companies in virtually every industry communicate with their customers. The future of communication we wish to fuel is one where every customer gets the right communication, on the right channel, at the right time - all adding to the customer's experience with that company. That's a future Twilio is uniquely capable of enabling. We're excited to work with the tens of thousands of customers already deploying solutions on Twilio, and can't wait to see what they will build next!

Onward,

Jeff Lawson

TWILIO INC.

375 BEALE STREET, SUITE 300
SAN FRANCISCO, CALIFORNIA 94105

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held at 9 a.m. Pacific Time on Monday, June 12, 2017

Dear Stockholders of Twilio Inc.:

We cordially invite you to attend the 2017 annual meeting of stockholders (the "**Annual Meeting**") of Twilio Inc., a Delaware corporation, which will be held on **Monday**, **June 12, 2017 at 9 a.m. Pacific Time at Four Embarcadero Center, Promenade Level, Stanford Room, San Francisco, CA 94111**, for the following purposes, as more fully described in the accompanying proxy statement:

1. To elect two Class I directors to serve until the 2020 annual meeting of stockholders and until their successors are duly elected and qualified;

2. To ratify the appointment of KPMG LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2017;

3. To ratify our 2016 Stock Option and Incentive Plan to preserve our ability to receive corporate income tax deductions that may become available pursuant to Section 162(m) of the Internal Revenue Code of 1986, as amended (the "**Code**"); and

4. To transact such other business as may properly come before the Annual Meeting or any adjournments or postponements thereof.

With respect to the election of the Class I directors, Scott Raney has notified our board of directors that he will not stand for reelection to the board of directors at the Annual Meeting. Mr. Raney has served on our board of directors since 2013, and we thank him for his years of service.

Our board of directors has fixed the close of business on April 17, 2017 as the record date for the Annual Meeting. Only stockholders of record on April 17, 2017 are entitled to notice of and to vote at the Annual Meeting. Further information regarding voting rights and the matters to be voted upon is presented in the accompanying proxy statement.

On or about April 24, 2017, we expect to mail to our stockholders a Notice of Internet Availability of Proxy Materials (the "**Notice**") containing instructions on how to access our proxy statement for our 2017 Annual Meeting of Stockholders (the "**Proxy Statement**") and our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 (the "**Annual Report**"). The Proxy Statement and the Annual Report can be accessed directly at the following Internet address: http://materials.proxyvote.com/90138F. All you have to do is enter the control number located on your proxy card.

YOUR VOTE IS IMPORTANT. Whether or not you plan to attend the Annual Meeting, we urge you to submit your vote via the Internet, telephone or mail as soon as possible to ensure that your shares are represented. For additional instructions on voting by telephone or the Internet, please refer to your proxy card. Returning the proxy does not deprive you of your right to attend the Annual Meeting and to vote your shares at the Annual Meeting.

We appreciate your continued support of Twilio.

By order of the Board of Directors,

Jeff Lawson
Co-Founder, Chief Executive Officer and Chairperson of the Board
San Francisco, California
April 24, 2017

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TWILIO INC.

PROXY STATEMENT
FOR
2017 ANNUAL MEETING OF STOCKHOLDERS

PROCEDURAL MATTERS

This proxy statement and the enclosed form of proxy are furnished in connection with the solicitation of proxies by our board of directors for use at the 2017 annual meeting of stockholders of Twilio Inc., a Delaware corporation (the "**Company**"), and any postponements, adjournments or continuations thereof (the "**Annual Meeting**"). The Annual Meeting will be held on Monday, June 12, 2017, at 9:00 a.m. Pacific Time at Four Embarcadero Center, Promenade Level, Stanford Room, San Francisco, CA 94111. The Notice of Internet Availability of Proxy Materials (the "**Notice**") containing instructions on how to access this proxy statement and our annual report is first being mailed on or about April 24, 2017 to all stockholders entitled to vote at the Annual Meeting.

The information provided in the "question and answer" format below is for your convenience only and is merely a summary of the information contained in this proxy statement. You should read this entire proxy statement carefully. Information contained on, or that can be accessed through, our website is not intended to be incorporated by reference into this proxy statement and references to our website address in this proxy statement are inactive textual references only.

What matters am I voting on?

You will be voting on:

- the election of two Class I directors to serve until the 2020 annual meeting of stockholders and until their successors are duly elected and qualified;
- a proposal to ratify the appointment of KPMG LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2017;
- a proposal to ratify our 2016 Stock Option and Incentive Plan to preserve our ability to receive corporate income tax deductions that may become available pursuant to Section 162(m) of the Code; and
- any other business as may properly come before the Annual Meeting.

How does the board of directors recommend I vote on these proposals?

Our board of directors recommends a vote:

- "**FOR**" the election of Richard Dalzell and Erika Rottenberg as Class I directors;
- "**FOR**" the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2017; and
- "**FOR**" the ratification of our 2016 Stock Option and Incentive Plan.

Who is entitled to vote?

Holders of either class of our common stock as of the close of business on April 17, 2017, the record date for the Annual Meeting, may vote at the Annual Meeting. As of the record date, there were 61,580,643 shares of our Class A common stock outstanding and there were 28,653,832 shares of our Class B common stock outstanding. Our Class A common stock and Class B common stock will vote as a single class on all matters described in this proxy statement for which your vote is being solicited. Stockholders are not permitted to cumulate votes with respect to the election of directors. Each share of Class A common stock is entitled to one vote on each proposal and each share of Class B common stock is entitled to 10 votes on each proposal. Our Class A common stock and Class B common stock are collectively referred to in this proxy statement as our "common stock."

Registered Stockholders. If shares of our common stock are registered directly in your name with our transfer agent, you are considered the stockholder of record with respect to those shares, and the Notice was provided to you directly by us. As the stockholder of record, you have the right to grant your voting proxy directly to the individuals listed on the proxy card or to vote live at the Annual Meeting. Throughout this proxy statement, we refer to these registered stockholders as "stockholders of record."

Street Name Stockholders. If shares of our common stock are held on your behalf in a brokerage account or by a bank or other nominee, you are considered to be the beneficial owner of shares that are held in "street name," and the Notice was forwarded to you by your broker or nominee, who is considered the stockholder of record with respect to those shares. As the beneficial owner, you have the right to direct your broker, bank or other nominee as to how to vote your shares. Beneficial owners are also invited to attend the Annual Meeting. However, since a beneficial owner is not the stockholder of record, you may not vote your shares of our common stock live at the Annual Meeting unless you follow your broker's procedures for obtaining a legal proxy. If you request a printed copy of our proxy materials by mail, your broker, bank or other nominee will provide a voting instruction form for you to use. Throughout this proxy statement, we refer to stockholders who hold their shares through a broker, bank or other nominee as "street name stockholders."

How many votes are needed for approval of each proposal?

- *Proposal No. 1*: The election of directors requires a plurality of the voting power of the shares of our common stock present in person or by proxy at the Annual Meeting and entitled to vote thereon to be approved. "Plurality" means that the nominees who receive the largest number of votes cast "For" such nominees are elected as directors. As a result, any shares not voted "For" a particular nominee (whether as a result of stockholder abstention or a broker non-vote) will not be counted in such nominee's favor and will have no effect on the outcome of the election. You may vote "For" or "Withhold" on each of the nominees for election as a director.
- *Proposal No. 2*: The ratification of the appointment of KPMG LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2017 requires the affirmative vote of a majority of the voting power of the shares of our common stock present in person or by proxy at the Annual Meeting and entitled to vote thereon to be approved. Abstentions are considered shares present and entitled to vote on this proposal, and thus, will have the same effect as a vote "Against" this proposal. Broker non-votes will have no effect on the outcome of this proposal.
- *Proposal No. 3*. Under our amended and restated certificate of incorporation and amended and restated bylaws, the ratification of our 2016 Stock Option and Incentive Plan, or 2016 Plan, to preserve our ability to receive corporate income tax deductions that may become available pursuant to Section 162(m) of the Internal Revenue Code of 1986, as amended, or Code, requires the affirmative vote of a majority of the voting power of the shares of our common stock present in person or by proxy at the Annual Meeting and entitled to vote thereon to be approved. Abstentions are considered shares present and entitled to vote on this proposal, and thus, will have the same effect as a vote "Against" this proposal. Broker non-votes will have no effect on the outcome of this proposal. In addition, the rules of the New York Stock Exchange

require that an additional threshold be met for this proposal to be approved: votes for this proposal must be at least a majority of all of the votes cast on this proposal. The New York Stock Exchange treats abstentions both as shares entitled to vote and as votes cast, but does not treat broker non-votes as votes cast. Because this proposal is a non-routine matter under the rules of the New York Stock Exchange, brokerage firms, banks and other nominees who hold shares on behalf of clients in "street name" are not permitted to vote the shares if the client does not provide instructions.

What is a quorum?

A quorum is the minimum number of shares required to be present at the Annual Meeting to properly hold an annual meeting of stockholders and conduct business under our amended and restated bylaws and Delaware law. The presence, in person or by proxy, of a majority of the voting power of all issued and outstanding shares of our common stock entitled to vote at the Annual Meeting will constitute a quorum at the Annual Meeting. Abstentions, withhold votes and broker non-votes are counted as shares present and entitled to vote for purposes of determining a quorum.

How do I vote?

If you are a stockholder of record, there are four ways to vote:

- by Internet at www.proxyvote.com, 24 hours a day, seven days a week, until 11:59 p.m. Eastern Time on June 11, 2017 (have your Notice or proxy card in hand when you visit the website);
- by toll-free telephone at 1-800-690-6903, until 11:59 p.m. Eastern Time on June 11, 2017 (have your Notice or proxy card in hand when you call);
- by completing and mailing your proxy card (if you received printed proxy materials); or
- by written ballot at the Annual Meeting.

If you plan to attend the Annual Meeting, we recommend that you also vote by proxy so that your vote will be counted if you later decide not to attend the Annual Meeting.

If you are a street name stockholder, you will receive voting instructions from your broker, bank or other nominee. You must follow the voting instructions provided by your broker, bank or other nominee in order to direct your broker, bank or other nominee on how to vote your shares. Street name stockholders should generally be able to vote by returning a voting instruction form, or by telephone or on the Internet. However, the availability of telephone and Internet voting will depend on the voting process of your broker, bank or other nominee. As discussed above, if you are a street name stockholder, you may not vote your shares in person at the Annual Meeting unless you obtain a legal proxy from your broker, bank or other nominee.

Can I change my vote?

Yes. If you are a stockholder of record, you can change your vote or revoke your proxy any time before the Annual Meeting by:

- entering a new vote by Internet or by telephone;
- completing and returning a later-dated proxy card;
- notifying the Corporate Secretary of Twilio Inc., in writing, at Twilio Inc., 375 Beale Street, Suite 300, San Francisco, California 94105; or
- attending and voting at the Annual Meeting (although attendance at the Annual Meeting will not, by itself, revoke a proxy).

If you are a street name stockholder, your broker, bank or other nominee can provide you with instructions on how to change your vote.

What do I need to do to attend the Annual Meeting in person?

If you plan to attend the meeting, you must be a holder of Company shares as of the record date of April 17, 2017.

On the day of the meeting, each stockholder will be required to present the following:

- valid government photo identification, such as a driver's license or passport; and
- street name stockholders holding their shares through a broker, bank, trustee, or other nominee will need to bring proof of beneficial ownership as of April 17, 2017, the record date, such as their most recent account statement reflecting their stock ownership prior to April 17, 2017, a copy of the voting instruction card provided by their broker, bank, trustee, or other nominee, or similar evidence of ownership.

Seating will begin at 8:00 a.m. and the meeting will begin at 9:00 a.m. Please note that seating is limited and you will be permitted entry on a first-come, first-served basis. Use of cameras, recording devices, computers and other personal electronic devices will not be permitted at the Annual Meeting, as all photography and video are prohibited at the Annual Meeting.

Allow ample time for check-in. Parking is limited. Please consider using public transportation. For security reasons, large bags and packages will not be allowed at the Annual Meeting. Persons may be subject to search.

What is the effect of giving a proxy?

Proxies are solicited by and on behalf of our board of directors. Jeff Lawson, Lee Kirkpatrick and Karyn Smith have been designated as proxy holders by our board of directors. When proxies are properly dated, executed and returned, the shares represented by such proxies will be voted at the Annual Meeting in accordance with the instructions of the stockholder. If no specific instructions are given, however, the shares will be voted in accordance with the recommendations of our board of directors as described above. If any matters not described in this proxy statement are properly presented at the Annual Meeting, the proxy holders will use their own judgment to determine how to vote the shares. If the Annual Meeting is adjourned, the proxy holders can vote the shares on the new Annual Meeting date as well, unless you have properly revoked your proxy instructions, as described above.

Why did I receive a Notice of Internet Availability of Proxy Materials instead of a full set of proxy materials?

In accordance with the rules of the Securities and Exchange Commission ("**SEC**"), we have elected to furnish our proxy materials, including this proxy statement and our annual report, primarily via the Internet. The Notice containing instructions on how to access our proxy materials is first being mailed on or about April 24, 2017 to all stockholders entitled to vote at the Annual Meeting. Stockholders may request to receive all future proxy materials in printed form by mail or electronically by e-mail by following the instructions contained in the Notice. We encourage stockholders to take advantage of the availability of our proxy materials on the Internet to help reduce the environmental impact and cost of our annual meetings of stockholders.

How are proxies solicited for the Annual Meeting?

Our board of directors is soliciting proxies for use at the Annual Meeting. All expenses associated with this solicitation will be borne by us. We will reimburse brokers or other nominees for reasonable expenses that they incur in sending our proxy materials to you if a broker, bank or other nominee holds shares of our common stock on your behalf. In addition, our directors and employees may also solicit proxies in person, by telephone or by other means of communication. Our directors and employees will not be paid any additional compensation for soliciting proxies.

How may my brokerage firm or other intermediary vote my shares if I fail to provide timely directions?

Brokerage firms and other intermediaries holding shares of our common stock in street name for their customers are generally required to vote such shares in the manner directed by their customers. In the absence of timely directions, your broker will have discretion to vote your shares on our sole "routine" matter: the proposal to ratify the appointment of KPMG LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2017. Your broker will not have discretion to vote on any other proposals, which are "non-routine" matters, absent direction from you.

Where can I find the voting results of the Annual Meeting?

We will announce preliminary voting results at the Annual Meeting. We will also disclose voting results on a Current Report on Form 8-K that we will file with the SEC within four business days after the Annual Meeting. If final voting results are not available to us in time to file a Current Report on Form 8-K within four business days after the Annual Meeting, we will file a Current Report on Form 8-K to publish preliminary results and will provide the final results in an amendment to the Current Report on Form 8-K as soon as they become available.

I share an address with another stockholder, and we received only one paper copy of the proxy materials. How may I obtain an additional copy of the proxy materials?

We have adopted a procedure called "householding," which the SEC has approved. Under this procedure, we deliver a single copy of the Notice and, if applicable, our proxy materials to multiple stockholders who share the same address, unless we have received contrary instructions from one or more of such stockholders. This procedure reduces our printing costs, mailing costs and fees. Stockholders who participate in householding will continue to be able to access and receive separate proxy cards. Upon written or oral request, we will deliver promptly a separate copy of the Notice and, if applicable, our proxy materials to any stockholder at a shared address to which we delivered a single copy of any of these materials. To receive a separate copy, or, if a stockholder is receiving multiple copies, to request that we only send a single copy of the Notice and, if applicable, our proxy materials, such stockholder may contact us at:

Twilio Inc.
Attention: Investor Relations
375 Beale Street, Suite 300
San Francisco, California 94105

Street name stockholders may contact their broker, bank or other nominee to request information about householding.

What is the deadline to propose actions for consideration at next year's annual meeting of stockholders or to nominate individuals to serve as directors?

Stockholder Proposals

Stockholders may present proper proposals for inclusion in our proxy statement and for consideration at next year's annual meeting of stockholders by submitting their proposals in writing to our Corporate Secretary in a timely manner. For a stockholder proposal to be considered for inclusion in our proxy statement for the 2018 annual meeting of stockholders, our Corporate Secretary must receive the written proposal at our principal executive offices not later than March 10, 2018. In addition, stockholder proposals must comply with the requirements of Rule 14a-8 regarding the inclusion of stockholder proposals in company-sponsored proxy materials. Stockholder proposals should be addressed to:

Twilio Inc.
Attention: Corporate Secretary
375 Beale Street, Suite 300
San Francisco, California 94105

Our amended and restated bylaws also establish an advance notice procedure for stockholders who wish to present a proposal before an annual meeting of stockholders but do not intend for the proposal to be included in our proxy statement. Our amended and restated bylaws provide that the only business that may be conducted at an annual meeting of stockholders is business that is (i) specified in our proxy materials with respect to such annual meeting, (ii) otherwise properly brought before such annual meeting by or at the direction of our board of directors or (iii) properly brought before such meeting by a stockholder of record entitled to vote at such annual meeting who has delivered timely written notice to our Corporate Secretary, which notice must contain the information specified in our amended and restated bylaws. To be timely for the 2018 annual meeting of stockholders, our Corporate Secretary must receive the written notice at our principal executive offices:

- not earlier than the close of business on February 8, 2018; and
- not later than the close of business on March 10, 2018.

In the event that we hold the 2018 annual meeting of stockholders more than 30 days before or more than 60 days after the one-year anniversary of the Annual Meeting, then, for notice by the stockholder to be timely, it must be received by the secretary not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting, or the tenth day following the day on which public announcement of the date of such annual meeting is first made.

If a stockholder who has notified us of his, her or its intention to present a proposal at an annual meeting of stockholders does not appear to present his, her or its proposal at such annual meeting, we are not required to present the proposal for a vote at such annual meeting.

Nomination of Director Candidates

Holders of our common stock may propose director candidates for consideration by our nominating and corporate governance committee. Any such recommendations should include the nominee's name and qualifications for membership on our board of directors and should be directed to our General Counsel or legal department at the address set forth above. For additional information regarding stockholder recommendations for director candidates, see the section titled "Board of Directors and Corporate Governance—Stockholder Recommendations and Nominations to the Board of Directors."

In addition, our amended and restated bylaws permit stockholders to nominate directors for election at an annual meeting of stockholders. To nominate a director, the stockholder must provide the information required by our amended and restated bylaws. In addition, the stockholder must give timely notice to our Corporate Secretary in accordance with our amended and restated bylaws, which, in general, require that the notice be received by our Corporate Secretary within the time periods described above under the section titled "Stockholder Proposals" for stockholder proposals that are not intended to be included in a proxy statement.

Availability of Bylaws

A copy of our amended and restated bylaws is available via the SEC's website at http://www.sec.gov. You may also contact our Corporate Secretary at the address set forth above for a copy of the relevant bylaw provisions regarding the requirements for making stockholder proposals and nominating director candidates.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

Our business and affairs are managed under the direction of our board of directors. Our board of directors consists of seven directors, all of whom, other than Messrs. Lawson and Deeter, qualify as "independent" under the listing standards of the New York Stock Exchange. Our board of directors is divided into three staggered classes of directors. At each annual meeting of stockholders, a class of directors will be elected for a three-year term to succeed the class whose term is then expiring.

The following table sets forth the names, ages as of March 31, 2017, and certain other information for each of the members of our board of directors with terms expiring at the Annual Meeting (who, with the exception of Mr. Raney, are also nominees for election as a director at the Annual Meeting) and for each of the continuing members of our board of directors:

	Class	Age	Position	Director Since	Current Term Expires	Expiration of Term For Which Nominated
Directors with Terms Expiring at the Annual Meeting/ Nominees						
Richard Dalzell[(1)]	I	60	Director	2014	2017	2020
Scott Raney[†(2)]	I	47	Director	2013	2017	—
Erika Rottenberg[(1)(2)(3)]	I	54	Director	2016	2017	2020
Continuing Directors						
Jeff Lawson	II	39	Co-Founder, Chief Executive Officer and Chairperson	2008	2018	—
Byron Deeter	II	42	Director	2010	2018	—
Elena Donio[(3)]	III	47	Director	2016	2019	—
James McGeever[(2)(3)]	III	50	Director	2012	2019	—

† On April 12, 2017, Mr. Raney notified us of his decision not to stand for reelection to our board of directors at the Annual Meeting.
(1) Member of the nominating and corporate governance committee
(2) Member of the audit committee
(3) Member of the compensation committee

Nominees for Director

Richard Dalzell. Mr. Dalzell has served as a member of our board of directors since 2014. From 1997 to 2007, Mr. Dalzell served in several roles at Amazon.com, Inc., including as Senior Vice President of Worldwide Architecture and Platform Software and Chief Information Officer. From 1990 to 1997, Mr. Dalzell served in several roles at Wal-Mart Stores, Inc., a discount retailer, including as Vice President of the Information Systems Division. Mr. Dalzell currently serves on the board of directors of Intuit Inc., a software company. Mr. Dalzell previously served on the board of directors of AOL Inc. Mr. Dalzell holds a B.S. in Engineering from the United States Military Academy.

Mr. Dalzell was selected to serve on our board of directors because of his experience as an executive and director of technology companies.

Erika Rottenberg. Ms. Rottenberg has served as a member of our board of directors since 2016. From 2008 to 2014, Ms. Rottenberg served as Vice President, General Counsel and Secretary at LinkedIn Corporation, a professional networking company. From 2004 to 2008, Ms. Rottenberg served as Senior Vice President, General Counsel and Secretary at SumTotal Systems, Inc., a talent management enterprise software company. From 1996 to 2002, Ms. Rottenberg served in several roles at Creative Labs, Inc., a computer peripheral and digital entertainment product company, including as

Vice President, Strategic Development and General Counsel. From 1993 to 1996, Ms. Rottenberg served as an attorney at Cooley LLP, a law firm. Ms. Rottenberg currently serves on the board of directors of Wix.com Ltd., a cloud-based web development platform. Ms. Rottenberg holds a B.S. in Special and Elementary Education from the State University of New York at Geneseo and a J.D. from the University of California, Berkeley, Boalt Hall School of Law.

Ms. Rottenberg was selected to serve on our board of directors because of her experience as a senior executive of technology companies and as a director of publicly-held technology companies.

Continuing Directors

Jeff Lawson. See the section titled "Executive Officers" for Mr. Lawson's biographical information.

Byron Deeter. Mr. Deeter has served as a member of our board of directors since 2010. Since 2005, Mr. Deeter has served as a partner of Bessemer Venture Partners, a venture capital firm. From 2004 to 2005, Mr. Deeter served as a director at International Business Machines Corporation, or IBM, a technology and consulting company. From 2000 to 2004, Mr. Deeter served in several roles, including co-founder, President, Chief Executive Officer and Vice President of Business Development, at Trigo Technologies, Inc., a product information management company, which was acquired by IBM in 2004. From 1998 to 2000, Mr. Deeter served as an Associate at TA Associates, a private equity firm. From 1996 to 1998, Mr. Deeter served as an Analyst at McKinsey & Company, a business consulting firm. Mr. Deeter previously served on the board of directors of Cornerstone OnDemand, Inc., a talent management software company and Instructure, Inc., an educational technology company. Mr. Deeter holds a B.A. in Political Economy from the University of California, Berkeley.

Mr. Deeter was selected to serve on our board of directors because of his experience in the venture capital industry and as a director of publicly-held and privately-held technology companies.

Elena Donio. Ms. Donio has served as a member of our board of directors since 2016. Since 2016, Ms. Donio has served as Chief Executive Officer at Axiom Global, a leading provider of tech-enabled legal services. From 1998 to 2016, Ms. Donio served in several roles, including as President, Executive Vice President and General Manager of Worldwide Small and Mid-Sized Businesses, at Concur Technologies, Inc., a business travel and expense management software company, which was acquired by SAP SE in 2014. From 1995 to 1997, Ms. Donio served as Senior Manager at Deloitte Consulting LLP, a professional services firm. From 1992 to 1995, Ms. Donio served as Senior Consultant at Andersen Consulting LLP, a business consulting firm. Ms. Donio holds a B.A. in Economics from the University of California, San Diego.

Ms. Donio was selected to serve on our board of directors because of her experience as a senior executive of a technology company and her industry experience.

James McGeever. Mr. McGeever has served as a member of our board of directors since 2012. Since 2016, Mr. McGeever has served as Executive Vice President at Oracle Corp., an enterprise software company. From 2000 to 2016, Mr. McGeever served in several roles, including Chief Financial Officer, Chief Operating Officer and President, at NetSuite Inc., a software company, which was acquired by Oracle in 2016. From 1998 to 2000, Mr. McGeever served as Controller for Clontech Laboratories, Inc., a biotechnology company, which was acquired by Becton, Dickinson and Company in 1999. From 1994 to 1998, Mr. McGeever served as Corporate Controller for Photon Dynamics, Inc., a capital equipment maker. Mr. McGeever holds a B.Sc. from the London School of Economics.

Mr. McGeever was selected to serve on our board of directors because of his operating and management experience with technology companies, including in the areas of finance and accounting.

Non-Continuing Directors

Scott Raney. Mr. Raney has served as a member of our board of directors since 2013. Since 2000, Mr. Raney has served as a partner of Redpoint Ventures, a venture capital firm. Prior to joining Redpoint, Mr. Raney served as Senior Manager of New Products of NorthPoint Communications Group Inc., a data transmission company. Prior to Northpoint, Mr. Raney served as a Consultant for Bain & Company, a business consulting firm. Earlier in his career, Mr. Raney served as Director of Engineering for VideoPort Technologies, Inc., a developer of videoconferencing hardware, and as a member of the Advanced Technology Group of Accenture, a business consulting firm. Mr. Raney holds a B.S.E.E. from Duke University and an M.B.A. from the Harvard Business School. On April 12, 2017, Mr. Raney notified us of his decision not to stand for reelection to our board of directors at the Annual Meeting.

Mr. Raney was selected to serve on our board of directors because of his experience in the venture capital industry and as a director of publicly-held and privately-held technology companies.

Director Independence

Our Class A common stock is listed on the New York Stock Exchange. Under the listing standards of the New York Stock Exchange, independent directors must comprise a majority of a listed company's board of directors. In addition, the listing standards of the New York Stock Exchange require that, subject to specified exceptions, each member of a listed company's audit, compensation and nominating and corporate governance committees be independent. Under the listing standards of the New York Stock Exchange, a director will only qualify as an "independent director" if, in the opinion of that listed company's board of directors, that director does not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

Audit committee members must also satisfy the additional independence criteria set forth in Rule 10A-3 under the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), and the listing standards of the New York Stock Exchange. Compensation committee members must also satisfy the additional independence criteria set forth in Rule 10C-1 under the Exchange Act and the listing standards of the New York Stock Exchange.

Our board of directors has undertaken a review of the independence of each director. Based on information provided by each director concerning his or her background, employment and affiliations, our board of directors has determined that Messrs. Dalzell, McGeever and Raney and Mses. Donio and Rottenberg do not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each of these directors is "independent" as that term is defined under the listing standards of the New York Stock Exchange. In making these determinations, our board of directors considered the current and prior relationships that each non-employee director has with our Company and all other facts and circumstances our board of directors deemed relevant in determining their independence, including the beneficial ownership of our capital stock by each non-employee director, and the transactions involving them described in the section titled "Certain Relationships and Related Party Transactions."

Board Leadership Structure

Mr. Lawson currently serves as both the Chairperson of our board of directors and as our Chief Executive Officer. Our non-management directors bring experience, oversight and expertise from outside of our Company, while Mr. Lawson brings Company-specific experience and expertise. As our co-founder, Mr. Lawson is best positioned to identify strategic priorities, lead critical discussion and execute our business plans. We believe that the structure of our board of directors and committees of our board of directors provides effective independent oversight of management while Mr. Lawson's combined role enables strong leadership, creates clear accountability and enhances our ability to communicate our message and strategy clearly and consistently to stockholders.

We do not have a lead independent director. Rather, our independent directors, who are the sole members of each of our board committees, provide strong independent leadership for each of these committees. Our independent directors meet in executive session after each meeting of the board of directors. At each such meeting, the presiding director for each executive session of our board of directors rotates among each member of our independent directors.

Board Meetings and Committees

Our board of directors may establish the authorized number of directors from time to time by resolution. Our board of directors currently consists of seven members. On April 12, 2017, Mr. Raney notified us of his decision not to stand for reelection to our board of directors at the Annual Meeting.

During our fiscal year ended December 31, 2016, our board of directors held nine meetings (including regularly scheduled and special meetings), and each director attended at least 75% of the aggregate of (i) the total number of meetings of our board of directors held during the period for which he or she had been a director and (ii) the total number of meetings held by all committees of our board of directors on which he or she served during the periods that he or she served, except Mr. McGeever, who attended 60% of such meetings.

Although our Corporate Governance Guidelines do not have a formal policy regarding attendance by members of our board of directors at annual meetings of stockholders, we encourage, but do not require, our directors to attend.

Our board of directors has established an audit committee, a compensation committee and a nominating and corporate governance committee. The composition and responsibilities of each of the committees of our board of directors is described below. Members serve on these committees until their resignation or until as otherwise determined by our board of directors.

Audit Committee

Our audit committee consists of Messrs. McGeever and Raney and Ms. Rottenberg, with Mr. McGeever serving as Chairperson. Mr. Raney, who is not standing for reelection to our board of directors at the Annual Meeting, will cease being a member of our board of directors effective immediately after the Annual Meeting. Each member of our audit committee meets the requirements for independence under the listing standards of the New York Stock Exchange and SEC rules and regulations. Each member of our audit committee also meets the financial literacy and sophistication requirements of the listing standards of the New York Stock Exchange. In addition, our board of directors has determined that Mr. McGeever is an audit committee financial expert within the meaning of Item 407(d) of Regulation S-K under the Securities Act of 1933, as amended, or the Securities Act. Our audit committee, among other things:

- selects a qualified firm to serve as the independent registered public accounting firm to audit our financial statements;
- helps to ensure the independence and performance of the independent registered public accounting firm;
- discusses the scope and results of the audit with the independent registered public accounting firm, and reviews, with management and the independent registered public accounting firm, our interim and year-end results of operations;
- develops procedures for employees to submit concerns anonymously about questionable accounting or audit matters;

- reviews our policies on risk assessment and risk management;
- reviews related party transactions; and
- approves or, as required, pre-approves, all audit and all permissible non-audit services, other than de minimis non-audit services, to be performed by the independent registered public accounting firm.

Our audit committee operates under a written charter that satisfies the applicable rules and regulations of the SEC and the listing standards of the New York Stock Exchange. A copy of the charter of our audit committee is available on our website at https://investors.twilio.com/.

Our audit committee held five meetings during fiscal year 2016.

Compensation Committee

Our compensation committee consists of Mses. Donio and Rottenberg and Mr. McGeever, with Ms. Donio serving as Chairperson. Each member of our compensation committee meets the requirements for independence under the listing standards of the New York Stock Exchange and SEC rules and regulations. Each member of our compensation committee is also a non-employee director, as defined pursuant to Rule 16b-3 promulgated under the Exchange Act, or Rule 16b-3, and an outside director, as defined pursuant to Section 162(m) of the Code, or Section 162(m). Our compensation committee, among other things:

- reviews, approves and determines, or makes recommendations to our board of directors regarding, the compensation of our executive officers;
- administers our stock and equity compensation plans;
- reviews and approves, or makes recommendations to our board of directors, regarding incentive compensation and equity compensation plans; and
- establishes and reviews general policies relating to compensation and benefits of our employees.

Our compensation committee operates under a written charter that satisfies the applicable rules and regulations of the SEC and the listing standards of the New York Stock Exchange. A copy of the charter of our compensation committee is available on our website https://investors.twilio.com/.

Pursuant to our 2016 Plan, our compensation committee may delegate to our Chief Executive Officer, or a committee comprised of the Chief Executive Officer and one or more other officer of the Company, all or part of its authority to approve certain grants of equity awards to certain individuals, subject to certain limitations including the amount of awards that can be granted pursuant to such delegated authority. To date, our compensation committee has not delegated any of its authority.

Our compensation committee held eight meetings during fiscal year 2016.

Nominating and Corporate Governance Committee

Our nominating and governance committee consists of Ms. Rottenberg and Mr. Dalzell, with Ms. Rottenberg serving as Chairperson. Each member of our nominating and governance committee meets the requirements for independence under the listing standards of the New York Stock Exchange and SEC rules and regulations. Our nominating and corporate governance committee, among other things:

- identifies, evaluates and selects, or makes recommendations to our board of directors regarding, nominees for election to our board of directors and its committees;
- considers and makes recommendations to our board of directors regarding the composition of our board of directors and its committees;

- reviews and assesses the adequacy of our corporate governance guidelines and recommends any proposed changes to our board of directors; and
- evaluates the performance of our board of directors and of individual directors.

Our nominating and corporate governance committee operates under a written charter that satisfies the applicable listing standards of the New York Stock Exchange. A copy of the charter of our nominating and corporate governance committee is available on our website at https://investors.twilio.com/.

Our nominating and corporate governance committee held one meeting during fiscal year 2016.

Compensation Committee Interlocks and Insider Participation

None of the members of our compensation committee is or has been an officer or employee of our Company. None of our executive officers currently serves, or in the past year has served, as a member of the board of directors or compensation committee (or other board committee performing equivalent functions) of any entity that has one or more of its executive officers serving on our board of directors or compensation committee. See the section titled "Certain Relationships and Related Party Transactions" for information about related party transactions involving members of our compensation committee or their affiliates.

Identifying and Evaluating Director Nominees

The board of directors has delegated to the nominating and corporate governance committee the responsibility of identifying suitable candidates for nomination to the board of directors (including candidates to fill any vacancies that may occur) and assessing their qualifications in light of the policies and principles in these corporate governance guidelines and the committee's charter. The nominating and corporate governance committee may gather information about the candidates through interviews, detailed questionnaires, comprehensive background checks or any other means that the nominating and corporate governance committee deems to be appropriate in the evaluation process. The nominating and corporate governance committee then meets as a group to discuss and evaluate the qualities and skills of each candidate, both on an individual basis and taking into account the overall composition and needs of the board of directors. Based on the results of the evaluation process, the nominating and corporate governance committee recommends candidates for the board of director's approval as director nominees for election to the board of directors.

Minimum Qualifications

Our nominating and corporate governance committee uses a variety of methods for identifying and evaluating director nominees and will consider all facts and circumstances that it deems appropriate or advisable. In its identification and evaluation of director candidates, our nominating and corporate governance committee will consider the current size and composition of our board of directors and the needs of our board of directors and the respective committees of our board of directors. Some of the qualifications that our nominating and corporate governance committee considers include, without limitation, issues of character, ethics, integrity, judgment, diversity of experience, independence, skills, education, expertise, business acumen, length of service, understanding of our business and industry, potential conflicts of interest and other commitments. Nominees must also have proven achievement and competence in their field, the ability to offer advice and guidance to our management team, the ability to make significant contributions to our success, and an understanding of the fiduciary responsibilities that are required of a director. Director candidates must have sufficient time available in the judgment of our nominating and corporate governance committee to perform all board of director and committee responsibilities. Members of our board of directors are expected to prepare for, attend, and participate in all board of director and applicable committee meetings. Other than the foregoing, there are no stated minimum criteria for director nominees, although our nominating and corporate governance committee may also consider such other factors as it may deem, from time to time, are in our and our stockholders' best interests.

Although our board of directors does not maintain a specific policy with respect to board diversity, our board of directors believes that our board of directors should be a diverse body, and our nominating and corporate governance committee considers a broad range of backgrounds and experiences. In making determinations regarding nominations of directors, our nominating and corporate governance committee may take into account the benefits of diverse viewpoints. Our nominating and corporate governance committee also considers these and other factors as it oversees the annual board of directors and committee evaluations. After completing its review and evaluation of director candidates, our nominating and corporate governance committee recommends to our full board of directors the director nominees for selection.

Stockholder Recommendations and Nominations to the Board of Directors

Stockholders may submit recommendations for director candidates to the nominating and corporate governance committee by sending the individual's name and qualifications to our General Counsel at Twilio Inc., 375 Beale Street, Suite 300, San Francisco, CA 94105, who will forward all recommendations to the nominating and corporate governance committee. The nominating and corporate governance committee will evaluate any candidates recommended by stockholders against the same criteria and pursuant to the same policies and procedures applicable to the evaluation of candidates proposed by directors or management.

Stockholder and Other Interested Party Communications

The board of directors provides to every stockholder and any other interested parties the ability to communicate with the board of directors, as a whole, and with individual directors on the board of directors through an established process for stockholder communication. For a stockholder communication directed to the board of directors as a whole, stockholders and other interested parties may send such communication to our General Counsel via U.S. Mail or Expedited Delivery Service to: Twilio Inc., 375 Beale Street, Suite 300, San Francisco, CA 94105, Attn: Board of Directors c/o General Counsel.

For a stockholder or other interested party communication directed to an individual director in his or her capacity as a member of the board of directors, stockholders and other interested parties may send such communication to the attention of the individual director via U.S. Mail or Expedited Delivery Service to: Twilio Inc., 375 Beale Street, Suite 300, San Francisco, CA 94105, Attn: [Name of Individual Director].

Our General Counsel, in consultation with appropriate members of our board of directors as necessary, will review all incoming communications and, if appropriate, all such communications will be forwarded to the appropriate member or members of our board of directors, or if none is specified, to the Chairperson of our board of directors.

Corporate Governance Guidelines and Code of Business Conduct and Ethics

Our board of directors has adopted Corporate Governance Guidelines that address items such as the qualifications and responsibilities of our directors and director candidates and corporate governance policies and standards applicable to us in general. In addition, our board of directors has adopted a code of business conduct and ethics that applies to all of our employees, officers and directors including our Chief Executive Officer, Chief Financial Officer, and other executive and senior financial officers. A copy of our Corporate Governance Guidelines and Code of Business Conduct and Ethics is available on our Internet website at https://investors.twilio.com and may also be obtained without charge by contacting our Corporate Secretary at Twilio Inc., 375 Beale Street, Suite 300, San Francisco, CA 94105. We intend to disclose any amendments to our code of business conduct and ethics, or waivers of its requirements, on our website or in filings under the Exchange Act, as required by the applicable rules and exchange requirements. During fiscal year 2016, no waivers were granted from any provision of the code of business conduct and ethics.

Risk Management

Risk is inherent with every business, and we face a number of risks, including strategic, financial, business and operational, legal and compliance, and reputational. We have designed and implemented processes to manage risk in our operations. Management is responsible for the day-to-day management of risks the Company faces, while our board of directors, as a whole and assisted by its committees, has responsibility for the oversight of risk management. In its risk oversight role, our board of directors has the responsibility to satisfy itself that the risk management processes designed and implemented by management are appropriate and functioning as designed.

Our board of directors believes that open communication between management and our board of directors is essential for effective risk management and oversight. Our board of directors meets with our Chief Executive Officer and other members of the senior management team at quarterly meetings of our board of directors, where, among other topics, they discuss strategy and risks facing the Company, as well at such other times as they deemed appropriate.

While our board of directors is ultimately responsible for risk oversight, our board committees assist our board of directors in fulfilling its oversight responsibilities in certain areas of risk. Our audit committee assists our board of directors in fulfilling its oversight responsibilities with respect to risk management in the areas of internal control over financial reporting and disclosure controls and procedures, legal and regulatory compliance, and discusses with management and the independent auditor guidelines and policies with respect to risk assessment and risk management. Our audit committee also reviews our major financial risk exposures and the steps management has taken to monitor and control these exposures. Our audit committee also monitors certain key risks on a regular basis throughout the fiscal year, such as risk associated with internal control over financial reporting and liquidity risk. Our nominating and corporate governance committee assists our board of directors in fulfilling its oversight responsibilities with respect to the management of risk associated with board organization, membership and structure, and corporate governance. Our compensation committee assesses risks created by the incentives inherent in our compensation policies. Finally, our full board of directors reviews strategic and operational risk in the context of reports from the management team, receives reports on all significant committee activities at each regular meeting, and evaluates the risks inherent in significant transactions.

Non-Employee Director Compensation

In May 2016, our board of directors, upon the recommendation of our compensation committee, adopted our Non-Employee Director Compensation Policy for the compensation of our non-employee directors. Our non-employee directors receive compensation in the form of the following cash retainers and equity awards:

Annual Retainer for Board Membership	
Annual service on the board of directors	$30,000
Additional Annual Retainer for Committee Membership	
Annual service as member of the audit committee (other than chair)	$ 9,000
Annual service as chair of the audit committee	$18,000
Annual service as member of the compensation committee (other than chair)	$ 5,000
Annual service as chair of the compensation committee	$10,000
Annual service as member of the nominating and corporate governance committee (other than chair)	$ 3,500
Annual service as chair of the nominating and corporate governance committee	$ 7,000

Our policy during fiscal year 2016 provided that, upon initial election to our board of directors, each non-employee director would be granted restricted stock units ("**RSUs**") having a value of $300,000 (the "**Initial Grant**"). In addition, on the date of each of our annual meetings of stockholders, each non-employee director who had been a member of the board of directors for at least six months and would continue as a member of our board of directors would be granted an annual award of RSUs having a value of $150,000 (the "**Annual Grant**"). The number of the RSUs for the Initial Grant and the Annual Grant were determined by dividing such applicable values by the fair market value of one share of the Company's Class A common stock on the date of grant. The Initial Grant vests in equal annual installments over three years, subject to continued service as a director through the applicable vesting dates. The Annual Grant vests in full on the earlier of (i) the anniversary of the grant date or (ii) our next annual meeting of stockholders, subject to continued service as a director through the applicable vesting date. Such awards are subject to full accelerated vesting upon a "sale event," as defined in the 2016 Plan.

In 2017, we amended and restated our Non-Employee Director Compensation Policy to provide the same cash retainers and equity awards above, except that the Annual Grant will be made on the date of each of our annual meeting of stockholders to each non-employee director who will continue as a member of the board of directors following such annual meeting of stockholders, instead of only to each continuing non-employee director who had been a member of our board of directors for at least six months. In addition, the amended and restated Non-Employee Director Compensation Policy provides that the number of RSUs for the Initial Grant and the Annual Grant will be determined by dividing the applicable values by the average closing market price on the New York Stock Exchange (or such other market on which the Company's Class A common stock is then principally listed) of one share of the Company's Class A common stock over the trailing 30-day period ending on the last day of the month immediately prior to the month of the grant date. The amended and restated Non-Employee Director Compensation Policy also provides that, pursuant to the 2016 Plan, the aggregate amount of compensation, including both equity compensation and cash compensation, paid to any non-employee director in a calendar year will not exceed $750,000 (or such other limit as may be set forth in the 2016 Plan or any similar provision of a successor plan).

Employee directors will receive no additional compensation for their service as a director.

We will reimburse all reasonable out-of-pocket expenses incurred by directors for their attendance at meetings of our board of directors or any committee thereof.

Non-Employee Director Compensation Table

The following table provides information regarding the total compensation that was earned by or paid to each of our non-employee directors in fiscal year 2016. Mr. Lawson, who is our Chief Executive

Officer, did not receive any additional compensation for his service as a director. The compensation received by Mr. Lawson, as a named executive officer of the Company, is presented in "Executive Compensation—Summary Compensation Table".

Name	Fees earned or paid in cash ($)	Stock awards ($)[1]	Total ($)
Richard Dalzell[2]	16,750	—	16,750
Byron Deeter[3]	18,500	—	18,500
Elena Donio[4]	20,000	300,006[4]	320,006
James McGeever[3]	26,500	—	26,500
Scott Raney[3]	19,500	—	19,500
Erika Rottenberg[5]	22,000	300,001[5]	322,001

(1) The amounts reported represent the aggregate grant date fair values of the RSUs awarded to the directors in the fiscal year ended December 31, 2016, calculated in accordance with FASB ASC Topic 718. Such grant date fair values do not take into account any estimated forfeitures related to service-based vesting conditions. The valuation assumptions used in determining such amounts are described in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K filed on February 22, 2017. The amounts reflect the accounting cost for the RSUs and do not correspond to the actual economic value that may be received by the directors upon vesting or settlement of the RSUs.

(2) As of December 31, 2016, Mr. Dalzell held an outstanding option to purchase a total of 150,000 shares of our Class B common stock.

(3) As of December 31, 2016, Messrs. Deeter, McGeever and Raney each held no outstanding equity awards.

(4) As of December 31, 2016, Ms. Donio held 29,733 RSUs. Of these RSUs, 33% vested on February 4, 2017, and the remaining RSUs vest in eight equal quarterly installments over the next two years, such that all the RSUs will vest in full on February 4, 2019, subject to continued service through each such vesting date.

(5) As of December 31, 2016, Ms. Rottenberg held 26,087 RSUs. Of these RSUs, 33% vest on August 15, 2017, and the remaining RSUs vest in eight equal quarterly installments over the next two years, such that all the RSUs will vest in full on August 15, 2019, subject to continued service through each such vesting date.

PROPOSAL NO. 1
ELECTION OF DIRECTORS

Our board of directors is currently composed of seven members. In accordance with our amended and restated certificate of incorporation, our board of directors is divided into three staggered classes of directors. At the Annual Meeting, two Class I directors will be elected for a three-year term to succeed the same class whose term is then expiring.

Each director's term continues until the election and qualification of his or her successor, or such director's earlier death, resignation or removal. Any increase or decrease in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of our directors. This classification of our board of directors may have the effect of delaying or preventing changes in the control of our Company.

Nominees

Our nominating and corporate governance committee has recommended, and our board of directors has approved, Richard Dalzell and Erika Rottenberg as nominees for election as Class I directors at the Annual Meeting. If elected, each of Mr. Dalzell and Ms. Rottenberg will serve as Class I directors until the 2020 annual meeting of stockholders and until their successors are duly elected and qualified. Each of the nominees is currently a director of our Company. For information concerning the nominees, please see the section titled "Board of Directors and Corporate Governance."

If you are a stockholder of record and you sign your proxy card or vote by telephone or over the Internet but do not give instructions with respect to the voting of directors, your shares will be voted "FOR" the election of Mr. Dalzell and Ms. Rottenberg. We expect that Mr. Dalzell and Ms. Rottenberg will each accept such nomination; however, in the event that a director nominee is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for any nominee designated by our board of directors to fill such vacancy. If you are a street name stockholder and you do not give voting instructions to your broker or nominee, your broker will leave your shares unvoted on this matter.

Vote Required

The election of directors requires a plurality of the voting power of the shares of our common stock be present in person or by proxy at the Annual Meeting and entitled to vote thereon to be approved. Broker non-votes will have no effect on this proposal.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR"

EACH OF THE NOMINEES NAMED ABOVE.

PROPOSAL NO. 2
RATIFICATION OF APPOINTMENT OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Our audit committee has appointed KPMG LLP ("KPMG"), an independent registered public accounting firm, to audit our consolidated financial statements for our fiscal year ending December 31, 2017. During our fiscal year ended December 31, 2016, KPMG served as our independent registered public accounting firm.

Notwithstanding the appointment of KPMG, and even if our stockholders ratify the appointment, our audit committee, in its discretion, may appoint another independent registered public accounting firm at any time during our fiscal year if our audit committee believes that such a change would be in the best interests of our Company and our stockholders. At the Annual Meeting, our stockholders are being asked to ratify the appointment of KPMG as our independent registered public accounting firm for our fiscal year ending December 31, 2017. Our audit committee is submitting the appointment of KPMG to our stockholders because we value our stockholders' views on our independent registered public accounting firm and as a matter of good corporate governance. Representatives of KPMG will be present at the Annual Meeting, and they will have an opportunity to make a statement and will be available to respond to appropriate questions from our stockholders.

If our stockholders do not ratify the appointment of KPMG, our board of directors may reconsider the appointment.

Fees Paid to the Independent Registered Public Accounting Firm

The following table presents fees for professional audit services and other services rendered to our Company by KPMG for our fiscal years ended December 31, 2015 and 2016.

	2015	2016
	(In Thousands)	
Audit Fees[1]	$1,791	$1,776
Audit-Related Fees	$ —	$ —
Tax Fees[2]	$ 390	$ 129
All Other Fees	$ —	$ —
Total Fees	$2,181	$1,905

(1) Audit Fees consist of professional services rendered in connection with the audit of our annual consolidated financial statements, including audited financial statements presented in our Annual Report on Form 10-K and services that are normally provided by the independent registered public accountants in connection with statutory and regulatory filings or engagements for those fiscal years. Fees for fiscal 2016 also consisted of professional services rendered in connection with our Registration Statements on Form S-1 related to the initial public offering and follow-on offering of our Class A common stock completed in June 2016 and October 2016, respectively.

(2) Tax Fees consist of fees for professional services for tax compliance, tax advice and tax planning. These services include consultation on tax matters and assistance regarding federal, state and international tax compliance.

Auditor Independence

In our fiscal year ended December 31, 2016, there were no other professional services provided by KPMG, other than those listed above, that would have required our audit committee to consider their compatibility with maintaining the independence of KPMG.

Audit Committee Policy on Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm

Our audit committee has established a policy governing our use of the services of our independent registered public accounting firm. Under this policy, our audit committee is required to pre-approve all audit, internal control-related services and permissible non-audit services performed by our independent registered public accounting firm in order to ensure that the provision of such services does not impair the public accountants' independence. All services provided by KPMG for our fiscal years ended December 31, 2015 and 2016 were pre-approved by our audit committee and were compatible with maintaining KPMG's independence.

Vote Required

The ratification of the appointment of KPMG as our independent registered public accounting firm for our fiscal year ending December 31, 2017 requires the affirmative vote of a majority of the voting power of the shares of our common stock present in person or by proxy at the Annual Meeting and entitled to vote thereon. Abstentions will have the effect of a vote against this proposal, and broker non-votes will have no effect.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF KPMG LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

PROPOSAL NO. 3
RATIFICATION OF 2016 STOCK OPTION AND INCENTIVE PLAN

Our 2016 Stock Option and Incentive Plan (the "**2016 Plan**") became effective in 2016 in connection with our initial public offering. The 2016 Plan provides for the grant of awards to our eligible officers, employees, non-employee directors and consultants in the form of stock options, stock appreciation rights, restricted stock units, restricted stock awards, unrestricted stock awards, cash-based awards, performance share awards and dividend equivalent rights.

Pursuant to Section 162(m) of the Internal Revenue Code of 1986, as amended ("**Section 162(m)**"), we generally may not deduct for federal income tax purposes compensation paid to certain executive officers to the extent that any of these persons receives more than $1 million in compensation in any single year. Compensation includes both cash compensation and compensation derived from equity awards. The executive officers whose compensation is subject to deduction limitation are those that constitute "covered employees" within the meaning of Section 162(m), which generally includes our Chief Executive Officer and certain of our most highly-compensated officers other than our Chief Financial Officer. However, if compensation qualifies as "performance-based" for Section 162(m) purposes, we may deduct it for federal income tax purposes even if it exceeds $1 million in a single year. Certain awards under the 2016 Plan can be designed to qualify as "performance-based" compensation within the meaning of Section 162(m). Certain awards made to our covered employees under the 2016 Plan that are granted and/or vest prior to our 2020 annual meeting of stockholders should not be subject to the cap on our tax deduction imposed by Section 162(m). However, for awards that are granted and/or become vested under our 2016 Plan to potentially qualify as "performance-based" compensation under Section 162(m) after our 2020 annual meeting of stockholders, our stockholders must approve the material terms, share limits, performance award dollar limit, and performance criteria of the 2016 Plan on or before such annual meeting.

Therefore, our board of directors is seeking stockholder ratification of the 2016 Plan so that certain awards made to covered employees under the 2016 Plan, including stock options, stock appreciation rights, restricted stock awards, restricted stock units, cash-based awards and performance share awards subject to performance-based vesting, will continue to qualify as "performance-based compensation" under Section 162(m) beyond our 2020 annual meeting and therefore be eligible to be exempt from the cap on the Company's tax deduction imposed by Section 162(m).

Because of the fact-based nature of the performance-based compensation exception under Section 162(m), we cannot guarantee that any awards under the 2016 Plan will qualify for exemption under Section 162(m). However, the 2016 Plan is structured with the intention that our compensation committee will have the discretion to make awards under the 2016 Plan that may qualify as "performance-based" compensation under Section 162(m). Subject to the requirements of Section 162(m), if the material terms under our 2016 Plan, including the annual equity grant share limitations, the performance award dollar limit and the performance criteria under which performance-based awards may be granted, are not approved by our stockholders, we will not make any further grants under the 2016 Plan to our "covered employees", or their successors, until such time, if any, as stockholder approval of a subsequent similar proposal is obtained.

We are not seeking to change the number of shares of Class A common stock of the Company available for issuance under the 2016 Plan. Subject to adjustment for stock splits, stock dividends and similar events, the total number of shares of Class A common stock of the Company that can be issued under the 2016 Plan is 11,500,000 shares, as increased on January 1, 2017 and each January 1 thereafter by 5 percent of the number of shares of Class A and Class B common stock of the Company issued and outstanding on the immediately preceding December 31 (the "**Annual Increase**") or such lesser number of shares of Class A common stock of the Company as determined by the compensation committee in its sole discretion. The shares of Class A common stock issued by the Company under the 2016 Plan may be authorized but unissued shares, or shares reacquired by the Company. To the extent that shares of Class A common stock underlying awards under the 2016 Plan or the Company's 2008 Stock Option Plan, as amended and restated (the "**2008 Plan**") (as converted from Class B common stock of the Company) are forfeited, canceled, held back upon exercise of an option or settlement of an award to cover the exercise price or tax withholding, reacquired by the Company prior to vesting, satisfied without the issuance of stock or otherwise terminated (other than by exercise), such shares will be added back to the shares of Class A common stock available for issuance under the 2016 Plan. In the event the Company repurchases shares of Class A common stock on the open market, such shares shall not be added to the shares of Class A common stock available for issuance under the 2016 Plan. In addition, subject to adjustment for stock splits, stock dividends and similar events, the maximum number of shares of Class A common stock of the Company that may be issued pursuant to the exercise of incentive stock options under the 2016 Plan is 11,500,000, cumulatively increased on January 1, 2017 and on each January 1 thereafter by the lesser of the Annual Increase for such year or 5,750,000 shares of Class A common stock of the Company.

Based solely upon the closing price of the Company's Class A common stock as reported on the New York Stock Exchange on December 30, 2016 and the maximum number of shares of Class A common stock of the Company that would have been available for awards as of such date, the maximum aggregate market value of the securities to be issued under the 2016 Plan would be $328,757,550.

We believe that the stock-based awards available for grant under the 2016 Plan can play an important role in the success of the Company by encouraging and enabling our officers, employees, non-employee directors and consultants, upon whose judgment, initiative and efforts we depend on for the successful conduct of our business, to acquire a proprietary interest in the Company. We believe that it is important to maintain the flexibility to preserve our tax deduction for awards under the 2016 Plan that qualify as "performance-based compensation" under Section 162(m).

Qualified Performance-Based Compensation under Section 162(m) of the Code

To ensure that certain awards granted under the 2016 Plan to covered employees are eligible to qualify as "performance-based compensation" under Section 162(m), the 2016 Plan provides that the compensation committee may require that the vesting or attainment of such awards be conditioned on the satisfaction of performance criteria that may include any or all of the following: (1) sales or revenue or bookings; (2) sales or revenue or bookings mix; (3) sales or market shares; (4) expense; (5) margins; (6) operating efficiency; (7) earnings before interest, taxes, depreciation and amortization; (8) net income (loss) (either before or after interest, taxes, depreciation and/or amortization); (9) operating income (loss); (10) earnings (loss) per share of Class A common stock of the Company; (11) working capital; (12) operating cash flow (funds from operations) and free cash flow; (13) customer satisfaction, (14) Net Promoter Score; (15) customer churn; (16) number of customers; (17) customer retention and expansion; (18) return on sales, gross or net profit levels; (19) return on capital, assets, equity, or investment; (20) changes in the market price of the Company's Class A common stock; (21) total stockholder return; (22) quality and reliability; (23) productivity; (24) economic value-added; and (25) acquisitions or strategic transactions, any of which may be measured either in absolute terms or as compared to any incremental increase or as compared to results of a peer group. The compensation committee will select the particular performance criteria within 90 days following the commencement of a performance cycle. A performance cycle is a period of no less than 12 months. Subject to adjustments for stock splits and similar events, the maximum award that may be granted to any one covered employee that is intended to qualify as "performance-based compensation" will not exceed 11,500,000 shares for any performance cycle and stock options or stock appreciation rights with respect to no more than 11,500,000 shares of Class A common stock of the Company (subject to adjustment for stock splits and similar events) may be granted to any one individual during any one calendar-year period. If a performance-based award is payable in cash, it cannot exceed $5 million for any one covered employee for any performance cycle.

Summary of the 2016 Plan

The following description of certain features of the 2016 Plan is intended to be a summary only. The summary is qualified in its entirety by the full text of the 2016 Plan attached hereto as *Appendix A* and incorporated herein by reference.

Administration. The 2016 Plan is administered by the compensation committee. The compensation committee has full power to select, from among the individuals eligible for awards, the individuals to whom awards will be granted, to make any combination of awards to participants, and to determine the specific terms and conditions of each award, subject to the provisions of the 2016 Plan. The compensation committee may, in its discretion, delegate to the Chief Executive Officer of the Company or a committee comprised of the Chief Executive Officer of the Company and one or more other officer of the Company, all or part of its authority and duties with respect to the granting certain awards to individuals who are not subject to the reporting and other provisions of Section 16 of the Securities Exchange Act of 1934, as amended, or who are not covered employees.

Eligibility. All full-time and part-time officers, employees, non-employee directors and other key persons, including consultants, of the Company and its subsidiaries are eligible to participate in the 2016 Plan, subject to the discretion of the compensation committee. As of December 31, 2016, the number of individuals potentially eligible to participate in the 2016 Plan is approximately 737 persons.

Limitations on Grants. Subject to adjustments for stock splits and similar events:

- stock options and stock appreciation rights with respect to no more than 11,500,000 shares of Class A common stock of the Company may be granted to any one individual in any one calendar year;
- the maximum number of shares of Class A common stock of the Company that may be issued as incentive stock options may not exceed the 11,500,000, cumulatively increased on January 1, 2017 and on each January 1 thereafter by the lesser of the Annual Increase for such year, or 5,750,000 shares of Class A common stock of the Company;
- the maximum award that may be granted to any one covered employee that is intended to qualify as "performance-based compensation" will not exceed 11,500,000 shares for any performance cycle; if a performance-based award is payable in cash, it cannot exceed $5 million for any one covered employee for any performance cycle; and
- the value of all awards issued under the 2016 Plan and all other cash compensation paid by the Company to any non-employee director in any calendar year cannot exceed $750,000.

Stock Options. Stock options granted under the 2016 Plan may be either incentive stock options within the meaning of Section 422 of the Code, or non-qualified stock options. Incentive stock options may be granted only to employees of the Company or any subsidiary. Stock options granted under the 2016 Plan will be non-qualified stock options if they (i) fail to qualify as incentive stock options, (ii) are granted to someone who is not an employee, or (iii) otherwise so provide. Non-qualified stock options may be granted to persons eligible to receive incentive stock options and to non-employee directors and other key persons.

The compensation committee has authority to determine the terms and conditions of stock options granted under the 2016 Plan. However, the per share exercise price of such stock options will not be less than 100% of the fair market value of a share of Class A common stock of the Company on the date or grant. If an employee owns or is deemed to own (pursuant to Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company or any parent or subsidiary corporation (a "**10% Owner**"), then the per share exercise price of any incentive stock option granted to that employee will not be less than 110% of the fair market value of a share of Class A common stock of the Company on the date of grant. The term of each stock option will be fixed by the compensation committee and may not exceed ten years from the date of grant (five years from the date of grant for a 10% Owner). The compensation committee will determine at what time or times each stock option may be exercised and the period of time, if any, after death, disability, or termination of employment during which stock options may be exercised. In the absence of such determinations by the compensation committee, the exercise periods are as set forth in the applicable stock option agreements under the 2016 Plan. Stock options may be made exercisable in installments, and the exercisability of options may be accelerated upon the occurrence of certain events or from time to time in the discretion of the compensation committee. In general, unless otherwise permitted by the compensation committee, no stock option granted under the 2016 Plan is transferable by the optionee other than by will or by the laws of descent and distribution, and stock options may be exercised during the optionee's lifetime only by the optionee, or by the optionee's legal representative or guardian in the case of the optionee's incapacity.

Stock options granted under the 2016 Plan may be exercised for cash or, if permitted by the compensation committee, by transfer to the Company (either actually or by attestation) of shares of Class A common stock of the Company that are not then subject to restrictions under any Company plan, and that have a fair market value equivalent to the aggregate stock option exercise price of the shares being purchased, or, subject to applicable law, by compliance with certain provisions pursuant to which a securities broker delivers the purchase price for the shares to the Company.

To qualify as incentive stock options, stock options must meet additional federal tax requirements, including a $100,000 limit on the value of shares of Class A common stock subject to incentive stock options which first become exercisable in any one calendar year, and a shorter term and higher minimum exercise price in the case of 10% Owners.

Stock Appreciation Rights. The compensation committee may award a stock appreciation right either as a freestanding award or in tandem with a stock option. A stock appreciation right is an award entitling the recipient to receive shares of Class A common stock of the Company having a value equal to the excess of the fair market value of the Class A common stock of the Company on the date of exercise over the exercise price of the stock appreciation right, which price may not be less than 100 percent of the fair market value of the Class A common stock of the Company on the date of grant (or more than the option exercise price per share, if the stock appreciation right was granted in tandem with a stock option) multiplied by the number of shares of Class A common stock of the Company with respect to which the stock appreciation right was exercised. All stock appreciation rights are exercisable during the grantee's lifetime only by the grantee or the grantee's legal representative.

Restricted Stock Awards. The compensation committee may grant shares of Class A common stock subject to such conditions and restrictions as the compensation committee may determine. These conditions and restrictions may include the achievement of pre-established performance goals and/or continued employment with the Company through a specified vesting period. The vesting period is determined by the compensation committee. If the applicable performance goals and other restrictions are not attained, the holder will forfeit his or her restricted stock award. Holders of restricted stock have the rights of a stockholder with respect to the voting of the shares of restricted stock and receipt of dividends, subject to such conditions contained in the award agreement evidencing the restricted stock award; provided, that if the lapse of restrictions with respect to the restricted stock award is tied to the attainment of performance goals, any dividends paid by the Company during the applicable performance period will accrue and will not be paid to the holder until and to the extent the performance goals are met with respect to the restricted stock award.

Unrestricted Stock Awards. The compensation committee may also grant shares of Class A common stock of the Company that are free from any restrictions under the 2016 Plan. Unrestricted stock may be granted in recognition of past services or other valid consideration, and may be issued in lieu of cash compensation.

Restricted Stock Units. The compensation committee may grant restricted stock units. The restricted stock units are ultimately payable in the form of shares of Class A common stock of the Company and may be subject to such conditions and restrictions as the compensation committee may determine. These conditions and restrictions may include the achievement of certain performance goals and/or continued employment with the Company through a specified vesting period. During the vesting period, subject to terms and conditions imposed by the compensation committee, the restricted stock units may be credited with dividend equivalent rights (discussed below). Subject to the consent of the compensation committee, a participant may make an advance election to receive a portion of his or her cash compensation otherwise due in the form of a restricted stock unit. A restricted unit award may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of during the deferral period.

Performance Share Awards. The compensation committee may grant performance share awards that entitles the grantee to receive shares of Class A common stock of the Company upon the achievement of specified performance goals. The compensation committee may make performance share awards independent of or in connection with the granting of any other award under the 2016 Plan. The compensation committee in its sole discretion will determine whether and to whom performance share awards are made, the performance goals, the periods during which performance is to be measured, and all other limitations and conditions.

Performance-Based Compensation. The compensation committee may grant awards of restricted stock, restricted stock units, performance share awards or cash-based awards under the 2016 Plan that are intended to qualify as "performance-based compensation" under Section 162(m). Such awards will only vest or become payable upon the attainment of performance goals that are established by the compensation committee and relate to one or more performance criteria listed above.

Cash-Based Awards. The compensation committee may grant cash bonuses under the 2016 Plan. The cash bonuses may be subject to the achievement of certain performance goals.

Dividend Equivalent Rights. The compensation committee may grant dividend equivalent rights that provide credits for cash dividends that would be paid if the holder had held specified shares of Class A common stock of the Company. Dividend equivalent rights may be granted as a component of another award or as a freestanding award. Dividend equivalent rights credited under the 2016 Plan may be paid currently or be deemed to be reinvested in additional shares of Class A common stock of the Company, which may thereafter accrue additional dividend equivalent rights. Dividend equivalent rights may be settled in cash, shares of Class A common stock of the Company, or a combination thereof, in a single installment or installments, as specified in the award. A dividend equivalent right granted as a component of an award of restricted stock units or performance share award will provide that such dividend equivalent right will be settled only upon settlement or payment of, or lapse of restrictions on, such other award, and that such dividend equivalent right will expire or be forfeited or annulled under the same conditions as such other award.

Tax Withholding. Participants under the 2016 Plan are responsible for the payment of any federal, state, or local taxes that we are required by law to withhold upon any option exercise or vesting of other awards. The Company and its subsidiaries will, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the participant and/or to direct that the proceeds from a sale of Class A common stock of the Company on behalf of a participant be paid over to the Company to satisfy any such tax withholding obligations. Subject to approval by the compensation committee, a participant may elect to have the Company's minimum required tax withholding obligation be satisfied, in whole or in part, by authorizing the Company to withhold from shares of Class A common stock of the Company to be issued pursuant to any award a number of shares with an aggregate fair market value (as of the date the withholding is effected) that would satisfy the withholding amount due. The compensation committee may also require awards to be subject to mandatory share withholding up to the required withholding amount.

Sale Event. The 2016 Plan provides that upon the effectiveness of a "sale event" (as defined in the 2016 Plan), an acquirer or successor entity may assume, continue or substitute for the outstanding awards under the 2016 Plan. To the extent that awards granted under the 2016 Plan are not assumed or continued or substituted by the successor entity, all unvested awards granted under the 2016 Plan will terminate. In such case, except as may be otherwise provided in the relevant award agreement, all options and stock appreciation rights with time-based vesting, conditions or restrictions that are not exercisable immediately prior to the sale event will become fully exercisable as of the sale event, all other awards with time-based vesting, conditions or restrictions will become fully vested and nonforfeitable as of the sale event, and all awards with conditions and restrictions relating to the attainment of performance goals may become vested and nonforfeitable in connection with the sale event in the compensation committee's discretion or to the extent specified in the relevant award agreement. In the event of such termination, participants holding options and stock appreciation rights will be permitted to exercise such options and stock appreciation rights (to the extent exercisable) prior to the sale event. In addition, in connection with the termination of the 2016 Plan upon a sale event, we may make or provide for a cash payment to participants holding vested and exercisable options and stock appreciation rights equal to the difference between the per share cash consideration payable to stockholders in the sale event and the exercise price of the options or stock appreciation rights.

Amendments and Termination. The board of directors may amend or discontinue the 2016 Plan and the compensation committee will be able to amend or cancel outstanding awards for purposes of satisfying changes in law or any other lawful purpose, but no such action may adversely affect rights under an award without the holder's consent. The compensation committee is specifically authorized to exercise its discretion to reduce the exercise price of outstanding stock options or stock appreciation rights or effect the repricing of such awards through cancellation and re-grants. Certain amendments to the 2016 Plan will require the approval of our stockholders. No grants may be made under the 2016 Plan after the tenth anniversary of its effective date, provided that no Incentive Stock Options may be made under the Plan after the tenth anniversary of the date that it is approved by the board of directors.

New Plan Benefits

We are not asking stockholders to approve of any additional shares of Class A common stock to be reserved for issuance under the 2016 Plan. Because the grant of awards under the 2016 Plan is within the discretion of the compensation committee, the Company cannot determine the dollar value or number of shares of Class A common stock of the Company that will in the future be received by or allocated to any participant in the 2016 Plan. Accordingly, in lieu of providing information regarding benefits that will be received under the 2016 Plan, the following table provides information concerning the benefits that were received by the following persons and groups during 2016: each named executive officer; all current executive officers, as a group; all current directors who are not executive officers, as a group; and all current employees who are not executive officers, as a group.

2016 Plan

Name and Position	Dollar Value ($)[(1)]	Number of Units
Jeff Lawson	—	—
Lee Kirkpatrick	—	—
Karyn Smith	—	—
All current executive officers, as a group	—	—
All current directors who are not executive officers, as a group	—	—
All current employees who are not executive officers, as a group	38,309,711	1,349,730

(1) Value is based on $28.85, which was the closing market price of our Class A common stock on December 30, 2016.

Tax Aspects under the U.S. Internal Revenue Code

The following is a summary of the principal federal income tax consequences of transactions under the 2016 Plan. It does not describe all federal tax consequences under the 2016 Plan, nor does it describe state or local tax consequences.

Incentive Stock Options. No taxable income is generally realized by the optionee upon the grant or exercise of an incentive stock option. If shares of Class A common stock of the Company issued to an optionee pursuant to the exercise of an incentive stock option are sold or transferred after two years from the date of grant and after one year from the date of exercise, then (i) upon sale of such shares, any amount realized in excess of the exercise price (the amount paid for the shares) will be taxed to the optionee as a long-term capital gain, and any loss sustained will be a long-term capital loss, and (ii) there will be no deduction for the Company for federal income tax purposes. The exercise of an incentive stock option will give rise to an item of tax preference that may result in alternative minimum tax liability for the optionee. An optionee will not have any additional FICA (Social Security) taxes upon exercise of an incentive stock option.

Shares of Class A common stock of the Company acquired upon the exercise of an incentive stock option must be held by the optionee until at least two years after the date the stock option was granted and at least one year after the stock option was exercised. If such shares are disposed of prior to the expiration of the holding periods described above, generally (i) the optionee will realize ordinary income in the year of disposition in an amount equal to the excess (if any) of the fair market value of the shares of Class A common stock of the Company at exercise (or, if less, the amount realized on a sale of such shares of Class A common stock of the Company) over the exercise price, and (ii) the Company will be entitled to deduct such amount. Special rules will apply where all or a portion of the exercise price of the incentive stock option is paid by tendering shares of Class A common stock of the Company.

If an incentive stock option is exercised at a time when it no longer qualifies for the tax treatment described above, the stock option is treated as a non-qualified stock option. Generally, an incentive stock option will not be eligible for the tax treatment described above if it is exercised more than three months following termination of employment (or one year in the case of termination of employment by reason of disability). In the case of termination of employment by reason of death, the three-month rule does not apply.

Non-Qualified Stock Options. With respect to non-qualified stock options under the 2016 Plan, no income is realized by the optionee at the time the stock option is granted. Generally (i) at exercise, ordinary income is realized by the optionee in an amount equal to the difference between the exercise price and the fair market value of the shares of Class A common stock of the Company on the date of exercise, and the Company receives a tax deduction for the same amount, and (ii) at disposition, appreciation or depreciation after the date of exercise is treated as either short-term or long-term capital gain or loss depending on how long the shares of Class A common stock of the Company have been held. Special rules will apply where all or a portion of the exercise price of the non-qualified stock option is paid by tendering shares of Class A common stock of the Company. Upon exercise, the optionee will also be subject to FICA taxes on the excess of the fair market value over the exercise price of the stock option.

Stock Appreciation Rights. No income will be recognized by a recipient upon the grant of either tandem or freestanding stock appreciation rights. For the year in which the stock appreciation right is exercised, the recipient will generally be taxed at ordinary income rates on the amount equal to the cash received plus the fair market value of any unrestricted shares received on the exercise.

Unrestricted Stock Awards. The recipient of an unrestricted stock award will generally be taxed at ordinary income rates on the difference between: (i) the fair market value of the shares of Class A common stock of the Company on the grant date, and (ii) the purchase price, if any, of the shares.

Restricted Stock Awards. The recipient of a restricted stock award will generally be taxed at ordinary income rates on the fair market value of the restricted shares (reduced by any amount paid by the recipient for such restricted shares) at such time as the shares are no longer subject to restrictions. However, a recipient may elect under Section 83(b) of the Code (the election must be filed with the IRS within 30 days of the grant date) to be taxed at ordinary income rates on the difference between: (i) the fair market value of such Class A shares of the Company on the grant date, and (ii) the purchase price, if any, of the shares. If a Section 83(b) election has not been made, dividends received with respect to restricted shares will generally be taxed as ordinary income to the recipient. If a Section 83(b) election has been made, dividends will be taxed at dividend rates.

Restricted Stock Units. The recipient of a restricted stock unit will generally be taxed at ordinary income rates on the fair market value of the shares of Class A common stock of the Company awarded on the transfer date (reduced by any amount paid by the recipient for such shares). The capital gains/loss holding period for such shares will also commence on such date.

Performance Share Awards. Performance share awards are generally taxed in the same manner as restricted stock awards, the only difference being that with respect to performance share awards the restrictions are performance-based, whereas with respect to restricted stock awards, the restrictions are time-based.

Dividend Equivalent Rights. Dividend equivalent rights may be paid currently or credited to the recipient's account to purchase additional stock appreciation rights or restricted stock units. If paid currently, then the dividend equivalent rights are also taxed currently. If credited to the recipient's account, the dividend equivalent rights are not taxed at the time of grant, but rather will be taxed as the stock appreciation rights or the restricted stock units that they were used to purchase.

Parachute Payments. The vesting of any portion of any stock option or other award that is accelerated due to the occurrence of a change of control may cause a portion of the payments with respect to such accelerated awards to be treated as "parachute payments" as defined in the Code. Any such parachute payments may be non-deductible to the Company, in whole or in part, and may subject the recipient to a non-deductible 20% federal excise tax on all or a portion of such payment (in addition to other taxes ordinarily payable).

Limitation on the Company's Deductions. As a result of Section 162(m), the Company's deduction for certain awards under the 2016 Plan may be limited to the extent that a covered employee receives compensation in excess of $1 million in such taxable year of the Company (other than performance-based compensation that otherwise meets the requirements of Section 162(m)).

Vote Required

Under our amended and restated certificate of incorporation and amended and restated bylaws, the approval of Proposal No. 3 requires that a majority of the voting power of the shares of our common stock present in person or by proxy at the Annual Meeting and entitled to vote thereon vote "FOR" this proposal. Abstentions are considered shares present and entitled to vote on this proposal and will have the effect of a vote against this proposal. Broker non-votes will not affect the outcome of this proposal. In addition, the rules of the New York Stock Exchange require that a majority of the votes properly cast vote "FOR" this proposal. The New York Stock Exchange treats abstentions both as shares entitled to vote and as votes cast, but does not treat broker non-votes as votes cast. Because this proposal is a non-routine matter under the rules of the New York Stock Exchange, brokerage firms, banks and other nominees who hold shares on behalf of clients in "street name" are not permitted to vote the shares if the client does not provide instructions.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THIS PROPOSAL.

REPORT OF THE AUDIT COMMITTEE

The audit committee is a committee of the board of directors comprised solely of independent directors as required by the listing standards of the New York Stock Exchange and rules and regulations of the Securities and Exchange Commission ("SEC"). The audit committee operates under a written charter approved by our board of directors, which is available on our web site at https://investors.twilio.com/. The composition of the audit committee, the attributes of its members and the responsibilities of the audit committee, as reflected in its charter, are intended to be in accordance with applicable requirements for corporate audit committees. The audit committee reviews and assesses the adequacy of its charter and the audit committee's performance on an annual basis.

With respect to our financial reporting process, our management is responsible for (1) establishing and maintaining internal controls and (2) preparing our consolidated financial statements. Our independent registered public accounting firm, KPMG LLP ("**KPMG**"), is responsible for performing an independent audit of our consolidated financial statements. It is the responsibility of the audit committee to oversee these activities. It is not the responsibility of the audit committee to prepare our financial statements. These are the fundamental responsibilities of management. In the performance of its oversight function, the audit committee has:

- reviewed and discussed the audited financial statements with management and KPMG;
- discussed with KPMG the matters required to be discussed by the statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1. AU section 380), and as adopted by the Public Company Accounting Oversight Board ("**PCAOB**") in Rule 3200T; and
- received the written disclosures and the letter from KPMG required by applicable requirements of the PCAOB regarding the independent accountant's communications with the audit committee concerning independence, and has discussed with KPMG its independence.

Based on the audit committee's review and discussions with management and KPMG, the audit committee recommended to the board of directors that the audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2016 for filing with the SEC.

Respectfully submitted by the members of the audit committee of the board of directors:

Jim McGeever (Chair)
Scott Raney
Erika Rottenberg

*This report of the audit committee is required by the SEC and, in accordance with the SEC's rules, will not be deemed to be part of or incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933, as amended ("**Securities Act**"), or under the Securities Exchange Act of 1934, as amended ("**Exchange Act**"), except to the extent that we specifically incorporate this information by reference, and will not otherwise be deemed "soliciting material" or "filed" under either the Securities Act or the Exchange Act.*

EXECUTIVE OFFICERS

The following table identifies certain information about our executive officers as of March 31, 2017. Our executive officers are appointed by, and serve at the discretion of, our board of directors and holds office until his or her successor is duly elected and qualified or until his or her earlier resignation or removal. There are no family relationships among any of our directors or executive officers.

Name	Age	Position
Jeff Lawson	39	Co-Founder, Chief Executive Officer and Chairperson
Lee Kirkpatrick	56	Chief Financial Officer
George Hu	42	Chief Operating Officer
Karyn Smith	52	General Counsel and Corporate Secretary

Executive Officers

Jeff Lawson. Mr. Lawson is one of our founders and has served as our Chief Executive Officer and as a member of our board of directors since April 2008 and has served as the Chairperson of our board of directors since November 2015. From 2001 to 2008, Mr. Lawson served as founder and Chief Technology Officer of Nine Star, Inc., a multi-channel retailer of equipment and apparel to the action sports industry. From 2004 to 2005, Mr. Lawson served as Technical Product Manager of Amazon.com, Inc., an electronic commerce and cloud computing company. In 2000, Mr. Lawson served as Chief Technology Officer of StubHub, Inc., an online marketplace for live entertainment events. From 1998 to 2000, Mr. Lawson served in several roles at Versity.com, Inc., a website for college lecture notes, including as founder, Chief Executive Officer and Chief Technology Officer. Mr. Lawson holds a B.S. in Computer Science and Film/Video from the University of Michigan.

Mr. Lawson was selected to serve on our board of directors because of the perspective and experience he brings as our Chief Executive Officer, one of our founders and as one of our largest stockholders, as well as his extensive experience as an executive with other technology companies.

Lee Kirkpatrick. Mr. Kirkpatrick has served as our Chief Financial Officer since May 2012. From November 2010 to December 2011, Mr. Kirkpatrick served as Chief Financial Officer of SAY Media, Inc., a digital media and advertising firm formed by the combination of VideoEgg, Inc. and SixApart, Ltd. From 2007 to 2010, Mr. Kirkpatrick served as Chief Operating Officer and Chief Financial Officer of VideoEgg, Inc., an online advertising network. From 2005 to 2006, Mr. Kirkpatrick served as Chief Operating Officer of Kodak Imaging Network at the Eastman Kodak Company, an imaging company. From 2000 to 2005, Mr. Kirkpatrick served in several roles at Ofoto Inc., an online photography service, which was acquired by Eastman Kodak Company in 2001, including as Chief Operating Officer and Chief Financial Officer. From 1998 to 2000, Mr. Kirkpatrick served as Chief Financial Officer of iOwn, Inc., an online real estate services website, which was acquired by CitiMortgage, Inc. in 2001. From 1997 to 1998, Mr. Kirkpatrick served as Chief Financial Officer of HyperParallel, Inc., a data mining software company, which was acquired by Yahoo! Inc. in 1998. From 1988 to 1997, Mr. Kirkpatrick served in several roles at Reuters Group PLC, a financial information and news service company, including as Manager of Special Projects, District Finance Manager and Director of Finance and Operations. Mr. Kirkpatrick holds a B.S. in Business Administration from the University of Southern California and an M.B.A. from Columbia University.

George Hu. Mr. Hu has served as our Chief Operating Officer since February 2017. From December 2014 to April 2016, Mr. Hu founded and served as Chief Executive Officer at Peer, a workplace feedback startup that was acquired by Twitter in 2016. Prior to that, from November 2011 to December 2014, Mr. Hu served as Chief Operating Officer of salesforce.com, inc., a leading provider of enterprise cloud computing applications. From 2001 to 2011, Mr. Hu served in a variety of other management roles at salesforce.com, including Vice President of Product Marketing, Senior Vice President of Applications, Executive Vice President of Products, and Chief Marketing Officer. Mr. Hu holds an A.B. in Economics from Harvard College and an M.B.A. in Business Administration from the Stanford Graduate School of Business.

Karyn Smith. Ms. Smith has served as our General Counsel since September 2014. From October 2013 to August 2014, Ms. Smith served as Chief Operating Officer and General Counsel at Peek, Aren't You Curious, Inc., a children's clothing company. From January 2013 to August 2013, Ms. Smith served as General Counsel at Meltwater Group Inc., a software-as-a-service company. From August 2009 to June 2012, Ms. Smith served as Vice President and Deputy General Counsel at Zynga Inc., an online video game company. Prior to Zynga, Ms. Smith was a partner at Cooley LLP, a law firm, where she practiced law for 10 years. Ms. Smith holds a Bachelor of Journalism from the University of Missouri, Columbia and a J.D. from Santa Clara University School of Law.

EXECUTIVE COMPENSATION

Overview

Our compensation programs are designed to:

- attract, motivate, incentivize and retain employees at the executive level who contribute to our long-term success;
- provide compensation packages to our executives that are competitive and reward the achievement of our business objectives and effectively align their interests with those of our stockholders; and
- effectively align our executives' interests with those of our stockholders by focusing on long-term equity incentives that correlate with the growth of sustainable long-term value for our stockholders.

Our compensation committee is responsible for the executive compensation programs for our executive officers and reports to our board of directors on its discussions, decisions and other actions. Our Chief Executive Officer makes recommendations for the respective executive officers that report to him to our compensation committee and typically attends compensation committee meetings. Our Chief Executive Officer makes such recommendations (other than with respect to himself) regarding base salary, and short-term and long-term compensation, including equity incentives, for our executive officers based on our results, an executive officer's individual contribution toward these results, the executive officer's role and performance of his or her duties and his or her achievement of individual goals. Our compensation committee then reviews the recommendations and other data, including various compensation survey data and publicly-available data of our peers, and makes decisions as to the target total direct compensation for each executive officer, including our Chief Executive Officer, as well as each individual compensation element. While our Chief Executive Officer typically attends meetings of the compensation committee, the compensation committee meets outside the presence of our Chief Executive Officer when discussing his compensation and when discussing certain other matters, as well.

Our compensation committee is authorized to retain the services of one or more executive compensation advisors, as it sees fit, in connection with the establishment of our executive compensation programs and related policies. In fiscal year 2016, the compensation committee continued to retain Compensia Inc., a national compensation consulting firm with compensation expertise relating to technology companies, to provide it with market information, analysis and other advice relating to executive compensation on an ongoing basis. The compensation committee engaged Compensia Inc. to, among other things, assist in developing an appropriate group of peer companies to help us determine the appropriate level of overall compensation for our executive officers, as well as to assess each separate element of compensation, with a goal of ensuring that the compensation we offer to our executive officers, individually as well as in the aggregate, is competitive and fair. We do not believe the retention of, and the work performed by, Compensia Inc. creates any conflict of interest.

Summary Compensation Table

The compensation provided to our named executive officers for the fiscal year ended December 31, 2016 is set forth in the Summary Compensation Table below and accompanying footnotes and narrative that follow this section.

Our named executive officers for the fiscal year ended December 31, 2016, which consisted of our Chief Executive Officer and our two most highly compensated executive officers other than our Chief Executive Officer, were:

- Jeff Lawson, our Chief Executive Officer and Chairperson;

• Lee Kirkpatrick, our Chief Financial Officer; and

• Karyn Smith, our General Counsel.

The following table provides information regarding the total compensation, for services rendered in all capacities, that was paid or earned by our named executive officers during the fiscal years ended December 31, 2015 and December 31, 2016.

Name and principal position	**Year**	**Salary ($)**	**Bonus ($)**	**Stock awards ($)[(1)]**	**Option awards ($)[(2)]**	**Nonequity incentive compensation ($)**	**All other compensation ($)**	**Total ($)**
Jeff Lawson	2016	133,700	—	1,917,100	—	—	—	2,050,800
Chief Executive Officer and Chairperson	2015	299,783[(3)]	15,000[(4)]	—	1,897,644	41,125[(5)]	—	2,253,552
Lee Kirkpatrick	2016	380,000	—	882,875	—	—	—	1,262,875
Chief Financial Officer	2015	327,500[(3)]	15,000[(4)]	—	873,915	48,125[(5)]	—	1,264,540
Karyn Smith	2016	337,500	—	303,376	—	—	—	640,876
General Counsel	2015	293,750[(3)]	15,000[(4)]	—	300,302	43,750[(5)]	—	652,802

(1) The amounts reported in this column represent the aggregate grant date fair value of the RSUs awarded to the named executive officers in the fiscal year ended December 31, 2016, calculated in accordance with FASB ASC Topic 718. Such grant date fair values do not take into account any estimated forfeitures related to service-vesting conditions. The valuation assumptions used in determining such amounts are described in the Notes to our Consolidated Financial Statements included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 22, 2017. The amounts reflect the accounting cost for the RSUs and do not correspond to the actual economic value that may be received by the named executive officers upon vesting or settlement of the RSUs.

(2) The amounts reported in this column represent the aggregate grant date fair value of the stock options awarded to the named executive officer in the fiscal year ended December 31, 2015, calculated in accordance with FASB ASC Topic 718. Such grant date fair values do not take into account any estimated forfeitures related to service-vesting conditions. The valuation assumptions used in determining such amounts are described in the Notes to our Consolidated Financial Statements included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 22, 2017. The amounts reflect the accounting cost for the stock options and do not correspond to the actual economic value that may be received by the named executive officers upon exercise of the stock options.

(3) Effective July 1, 2015, we terminated our 2015 Bonus Plan. In connection with the termination of the 2015 Bonus Plan, each of our named executive officers received an increase in annual base salary during the fiscal year ended December 31, 2015. Effective July 1, 2015, Mr. Lawson's annual base salary increased from $235,000 to $480,000; however, effective November 1, 2015, upon Mr. Lawson's request, his annual base salary decreased to $133,700. Effective July 1, 2015, Mr. Kirkpatrick's annual base salary increased from $275,000 to $380,000 and Ms. Smith's annual base salary increased from $250,000 to $337,500.

(4) During the fiscal year ended December 31, 2015, each of our named executive officers earned a discretionary bonus equal to $15,000 in connection with the termination of our 2015 Bonus Plan. The discretionary bonus was paid to each of our named executive officers in fiscal 2016.

(5) Amounts for Messrs. Lawson and Kirkpatrick and Ms. Smith were earned based on our achievement of certain performance goals, including total revenue, base revenue, gross margin and non-GAAP operating income, in accordance with our 2015 Bonus Plan. Since the 2015 Bonus Plan was terminated effective July 1, 2015, each of our named executive officers received a pro-rata portion of his or her 2015 bonus under the plan.

Narrative to Summary Compensation Table

Base Salaries

For the year ended December 31, 2016, the annual base salaries for each of Messrs. Lawson and Kirkpatrick and Ms. Smith were $133,700, $380,000 and $337,500 respectively.

For the year ended December 31, 2015, the annual base salaries for each of Messrs. Lawson and Kirkpatrick and Ms. Smith prior to July 1, 2015 were $235,000, $275,000 and $250,000, respectively. Effective July 1, 2015, the annual base salaries for each of Messrs. Lawson and Kirkpatrick and Ms. Smith were increased to $480,000, $380,000 and $337,500, respectively. While our compensation committee recommended an increase in Mr. Lawson's annual base salary, Mr. Lawson requested that it be decreased. Therefore Mr. Lawson's annual base salary was subsequently decreased to $133,700, effective November 1, 2015, in accordance with his request.

Annual Bonuses

During the fiscal year ended December 31, 2016, we did not pay any cash bonuses to our named executive officers, since our compensation committee discontinued our cash bonus plan in 2015 (as described below).

During the fiscal year ended December 31, 2015, we maintained a 2015 Bonus Plan, which we terminated effective July 1, 2015. Prior to the termination of the 2015 Bonus Plan, for the first half of fiscal year 2015 (from January 1, 2015 through June 30, 2015), each of our named executive officers was eligible to receive a pro-rata portion of an annual bonus based on our achievement of certain performance goals, consisting of total revenue, base revenue, gross margin and non-GAAP operating income, pursuant to our 2015 Bonus Plan. Our compensation committee had sole discretion to determine the calculations of total revenue, base revenue, gross margin and non-GAAP operating income; provided, that such calculations were determined in a reasonable manner. Bonus amounts may not have been increased at the discretion of our compensation committee. For fiscal year 2015, the target annual bonuses for Messrs. Lawson and Kirkpatrick and Ms. Smith were each equal to 35% of the applicable named executive officer's base salary. Based on the Company's achievement of the relevant performance goals under the 2015 Bonus Plan, our compensation committee determined that the bonuses would be paid at 100% of target for each named executive officer. Such amount was then pro-rated to reflect the fact that the bonus was paid for less than a full year's performance. As a result of the termination of the 2015 Bonus Plan, which was unrelated to the performance of our named executive officers, each of our named executive officers received an increase in annual base salary during the fiscal year ended December 31, 2015 (as described above).

Equity Compensation

During the fiscal year ended December 31, 2016, we granted RSUs to each of our named executive officers, as shown in more detail in the "Outstanding Equity Awards at Fiscal 2016 Year-End Table" below.

Prior to fiscal 2016, we granted only options to purchase shares of our common stock to each of our named executive officers, as shown in more detail in the "Outstanding Equity Awards at Fiscal 2016 Year-End Table" below.

401(k) Plan

We maintain a tax-qualified retirement plan that provides eligible U.S. employees with an opportunity to save for retirement on a tax-advantaged basis. Plan participants are able to defer eligible compensation subject to applicable annual Code limits. We have the ability to make discretionary contributions to the 401(k) plan but have not done so to date. The 401(k) plan is intended to be qualified under Section 401(a) of the Code with the 401(k) plan's related trust intended to be tax exempt under Section 501(a) of the Code. As a tax-qualified retirement plan, contributions to the 401(k) plan and earnings on those contributions are not taxable to the employees until distributed from the 401(k) plan.

Health and Welfare Benefits

Our named executive officers are eligible to participate in all of our employee benefit plans, including our medical, dental, life and disability insurance plans, in each case on the same basis as other employees of the same status.

Perquisites and Personal Benefits

We generally do not provide perquisites or personal benefits to our named executive officers.

Outstanding Equity Awards at Fiscal 2016 Year-End Table

The following table sets forth information regarding outstanding equity awards held by our named executive officers as of December 31, 2016:

		Option Awards[(1)(2)]				Stock Awards[(1)(2)]	
Name	Grant date	Number of securities underlying unexercised options (#) exerciseable	Number of securities underlying unexercised options (#) unexerciseable	Option exercise price ($)[(3)]	Option expiration date	Number of shares or units of stock that have not vested (#)	Market value of shares or units of stock that have not vested ($)[(4)]
Jeff Lawson	12/31/2015	316,667[(5)]	—	10.09	12/30/2025	—	—
Chief Executive Officer and Chairperson	2/4/2016	—	—	—	—	154,375[(6)]	$4,453,719
Lee Kirkpatrick	5/17/2012	516,525[(7)]	—	1.24	05/16/2022	—	—
Chief Financial Officer	12/31/2015	175,000[(8)]	—	10.09	12/30/2025	—	—
	2/4/2016	—	—	—	—	72,917[(9)]	$2,103,655
Karyn Smith	10/29/2014	215,458[(10)]	—	4.73	10/28/2024	—	—
General Counsel	12/31/2015	51,765[(11)]	—	10.09	12/30/2025	—	—
	2/4/2016	—	—	—	—	24,430[(6)]	$ 704,806

(1) Each equity award was granted pursuant to our 2008 Stock Option Plan, or the 2008 Plan. Each stock option is immediately exercisable. To the extent a named executive officer exercises his or her option prior to vesting, the shares of our common stock that he or she will receive will be unvested and subject to the Company's right of repurchase, which will lapse in accordance with the original vesting schedule of the option. No named executive officer has early exercised his or her options.

(2) Unless otherwise described in the footnotes below, the vesting of each equity award on a vesting date is subject to the equity award holder's provision of service through such vesting date.

(3) This column represents the fair market value of a share of our common stock on the date of the grant, as determined by our board of directors.

(4) This column represents the market value of the shares of our Class A common stock underlying the RSUs as of December 30, 2016, based on the closing price of our Class A common stock, as reported on the New York Stock Exchange, of $28.85 per share on December 30, 2016.

(5) The shares subject to the option vest in equal monthly installments over 48 months following January 15, 2016. In the event of a "change in control," as defined in the applicable option agreement, where the successor corporation assumes or substitutes the option, if Mr. Lawson is terminated by us without "cause," as defined in the applicable option agreement, or he resigns for "good reason," as defined in the applicable option agreement, in each case within the period beginning 30 days prior to and ending 12 months following such change in control, then 100% of the then-unvested portion of the option and underlying shares of common stock will become vested. To the extent the successor corporation does not assume or substitute the option in connection with a change in control, the then-unvested portion of the option and underlying shares of common stock will fully vest.

(6) The shares underlying the RSUs will vest in sixteen equal quarterly installments following January 15, 2016.

(7) 25% of the shares subject to the option vested on May 7, 2013 and 1/48th of the shares subject to the option will vest on the seventh day of each month thereafter. In the event of a "change in control," as defined in the 2008 Plan, if Mr. Kirkpatrick is subject to an "involuntary termination," as defined in Mr. Kirkpatrick's offer letter, within 12 months following such change in control, then 100% of the then-unvested portion of the option and underlying shares of common stock will become vested. To the extent the successor corporation does not assume or substitute the option in connection with a change in control, the then-unvested portion of the option and underlying shares of common stock will fully vest.

(8) The shares subject to the option vest in equal monthly installments over 34 months following June 15, 2016. In the event of a "change in control," as defined in the applicable option agreement, where the successor corporation assumes or substitutes the option, if Mr. Kirkpatrick is terminated by us without "cause," as defined in the applicable option agreement, or he resigns for "good reason," as defined in the applicable option agreement, in each case within the period beginning 30 days prior to and ending 12 months following such change in control, then 100% of the then-unvested portion of the option and underlying shares of common stock will become vested. To the extent the successor corporation does not assume or substitute the option in connection with a change in control, the then-unvested portion of the option and underlying shares of common stock will fully vest.

(9) The shares underlying the RSUs will vest in twelve equal quarterly installments following June 15, 2016.

(10) 25% of the shares subject to the option vested on September 2, 2015 and 1/48th of the shares subject to the option will vest on the second day of each month thereafter. In the event of a transfer of the Company where the successor corporation assumes or substitutes the option, if Ms. Smith is terminated by us without "cause," as defined in Ms. Smith's offer letter, or she resigns for "good reason," as defined in Ms. Smith's offer letter, in each case within 12 months following such transfer, then 100% of the then-unvested portion of the option and underlying shares of common stock will become vested. To the extent the successor corporation does not assume or substitute the option in connection with a change in control, the then-unvested portion of the option and underlying shares of common stock will fully vest.

(11) The shares subject to the option vest in equal monthly installments over 48 months following January 15, 2016. In the event of a "change in control," as defined in the applicable option agreement, where the successor corporation assumes or substitutes the option, if Ms. Smith is terminated by us without "cause," as defined in the applicable option agreement, or she resigns for "good reason," as defined in the applicable option agreement, in each case within the period beginning 30 days prior to and ending 12 months following such change in control, then 100% of the then-unvested portion of the option and underlying shares of common stock will become vested. To the extent the successor corporation does not assume or substitute the option in connection with a change in control, the then-unvested portion of the option and underlying shares of common stock will fully vest.

In February 2017, our board of directors approved a grant of a stock option to purchase shares of our Class A common stock and a grant of RSUs to each of our named executive officers. Such stock options and RSUs are subject to time-based vesting conditions and full acceleration of vesting if the applicable named executive officer is either terminated by us for any reason other than for "cause" (as defined in the applicable award agreement), death or disability, or resigns for "good reason" (as defined in the applicable award agreement), in each case during the period beginning 30 days prior to, and ending 12 months after, the date of a "change in control" (as defined in the applicable award agreement).

Employment Agreements with Named Executive Officers

We initially entered into offer letters with each of the named executive officers, except for Mr. Lawson, in connection with his or her employment with us, which set forth the terms and conditions of employment of each individual, including his or her initial base salary, initial target annual bonus opportunity and standard employee benefit plan participation. In addition, these offer letters provided for certain payments and benefits in the event of an involuntary termination of employment following a change in control of the Company. In connection with our initial public offering, we adopted an executive severance plan, or the Executive Severance Plan, in order to provide more standardized severance benefits to our named executive officers and to supersede and replace any existing severance arrangements with benefits that were aligned with our peer group practices. Each of the named executive officers, including Mr. Lawson, will participate in the Executive Severance Plan, as further described below. The Executive Severance Plan provides for certain payments and benefits in the event of a termination of employment, including an involuntary termination of employment in connection with a change in control of the Company, and replaced the severance provisions in the named executive officers' offer letters, if any.

Jeff Lawson

We have not entered into an offer letter or employment agreement with Mr. Lawson.

Lee Kirkpatrick

On April 24, 2012, we entered into an offer letter with Mr. Kirkpatrick, who currently serves as our Chief Financial Officer. The offer letter provided for Mr. Kirkpatrick's at-will employment and set forth his initial annual base salary, target bonus and an initial option grant, as well as his eligibility to participate in our benefit plans generally. Mr. Kirkpatrick is subject to our standard employment, confidential information, invention assignment and arbitration agreement.

Karyn Smith

On July 30, 2014, we entered into an offer letter with Ms. Smith, who currently serves as our General Counsel. The offer letter provided for Ms. Smith's at-will employment and set forth her initial annual base salary, target bonus and an initial option grant, as well as her eligibility to participate in our benefit plans generally. The offer letter also provided Ms. Smith with the following severance benefits if she is terminated by us without “cause,” as defined in the offer letter, or she resigns for “good reason,” as defined in the offer letter, each on or within 12 months following a “change in control,” as defined in the offer letter, subject to the delivery of an effective release of claims in favor of the Company and its affiliates: (i) a lump sum cash payment equal to three months’ base salary; and (ii) up to three months of Company-paid monthly premiums for COBRA continuation. Ms. Smith is subject to our standard employment, confidential information, invention assignment and arbitration agreement.

Executive Severance Plan

The Executive Severance Plan provides that upon a termination of employment by us for any reason other than for “cause,” as defined in the Executive Severance Plan, death or disability outside of the change in control period (i.e., the period beginning 30 days prior to and ending 12 months after, a “change in control,” as defined in the Executive Severance Plan), an eligible participant will be entitled to receive, subject to the execution and delivery of an effective release of claims in favor of the Company, (i) a lump sum cash payment equal to nine months of base salary for our Chief Executive Officer and six months of base salary for the other participants, and (ii) a monthly cash payment equal to our contribution towards health insurance for up to nine months for our Chief Executive Officer and up to six months for the other participants.

The Executive Severance Plan also provides that upon a (i) termination of employment by us other than for cause, death or disability or (ii) a resignation of employment for “good reason,” as defined in the Executive Severance Plan, in each case within the change in control period, an eligible participant will be entitled to receive, in lieu of the payments and benefits above and subject to the execution and delivery of an effective release of claims in favor of the Company, (i) a lump sum cash payment equal to 18 months of base salary for our Chief Executive Officer and 12 months of base salary for the other participants, (ii) a monthly cash payment equal to our contribution towards health insurance for up to 18 months for our Chief Executive Officer and up to 12 months for the other participants and (iii) full accelerated vesting of all outstanding and unvested equity award held by such participant; provided, that any unvested and outstanding equity awards subject to performance conditions will be deemed satisfied at the target levels specified in the applicable award agreements.

The payments and benefits provided under the Executive Severance Plan in connection with a change in control may not be eligible for a federal income tax deduction by us pursuant to Section 280G of the Internal Revenue Code. These payments and benefits may also subject an eligible participant, including the named executive officers, to an excise tax under Section 4999 of the Internal Revenue Code. If the payments or benefits payable to an eligible participant in connection with a change in control would be subject to the excise tax imposed under Section 4999 of the Internal Revenue Code, then those payments or benefits will be reduced if such reduction would result in a higher net after-tax benefit to him or her.

COMPENSATION COMMITTEE REPORT

The compensation committee has reviewed and discussed the section titled "Executive Compensation" with management. Based on such review and discussion, the compensation committee has recommended to the board of directors that the section titled "Executive Compensation" be included in this proxy statement.

Respectfully submitted by the members of the compensation committee of the board of directors:

Compensation Committee

Elena Donio (Chair)
Jim McGeever
Erika Rottenberg

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of December 31, 2016 with respect to the shares of our common stock that may be issued under our existing equity compensation plans.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by stockholders(1)	16,681,100(2)	$6.1379(3)	13,795,409(4)
Equity compensation plans not approved by stockholders	—	—	—
Total	16,681,100	$6.1379	13,795,409

(1) Includes the following plans: our 2008 Stock Option Plan, as amended and restated, or 2008 Plan, our 2016 Stock Option and Incentive Plan, or 2016 Plan, and our 2016 Employee Stock Purchase Plan, or ESPP.

(2) Excludes 2,031,824 shares that may be issued under restricted stock unit awards as of December 31, 2016.

(3) Excludes 2,031,824 shares that may be issued under restricted stock unit awards as of December 31, 2016.

(4) As of December 31, 2016, a total of 11,482,400 shares of our Class A common stock have been reserved for issuance pursuant to the 2016 Plan, which number excludes the 4,362,427 shares that were added to the 2016 Plan as a result of the automatic annual increase on January 1, 2017. The 2016 Plan provides that the number of shares reserved and available for issuance under the 2016 Plan will automatically increase each January 1, beginning on January 1, 2017, by 5% of the outstanding number of shares of our Class A and Class B common stock on the immediately preceding December 31 or such lesser number of shares as determined by our compensation committee. This number will be subject to adjustment in the event of a stock split, stock dividend or other change in our capitalization. The shares of Class A and Class B common stock underlying any awards that are forfeited, cancelled, held back upon exercise or settlement of an award to satisfy the exercise price or tax withholding, reacquired by us prior to vesting, satisfied without the issuance of stock, expire or are otherwise terminated, other than by exercise, under the 2016 Plan and the 2008 Plan will be added back to the shares of Class A common stock available for issuance under the 2016 Plan (provided, that any such shares of Class B common stock will first be converted into shares of Class A common stock). The Company no longer makes grants under the 2008 Plan. As of December 31, 2016, a total of 2,400,000 shares of our Class A common stock have been reserved for issuance pursuant to the ESPP, which number excludes the 872,485 shares that were added to the ESPP as a result of the automatic annual increase on January 1, 2017. The ESPP provides that the number of shares reserved and available for issuance under the ESPP will automatically increase each January 1, beginning on January 1, 2017, by the lesser of 1,800,000 shares of our Class A common stock, 1% of the outstanding number of shares of our Class A and Class B common stock on the immediately preceding December 31 or such lesser number of shares as determined by our compensation committee. This number will be subject to adjustment in the event of a stock split, stock dividend or other change in our capitalization.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information available to us with respect to the beneficial ownership of our capital stock as of March 31, 2017, for:

- each of our named executive officers;
- each of our directors;
- all of our current directors and executive officers as a group; and
- each person known by us to be the beneficial owner of more than 5% of the outstanding shares of our Class A or Class B common stock.

We have determined beneficial ownership in accordance with the rules of the SEC, and thus it represents sole or shared voting or investment power with respect to our securities. Unless otherwise indicated below, to our knowledge, the persons and entities named in the table have sole voting and sole investment power with respect to all shares that they beneficially owned, subject to community property laws where applicable.

We have based our calculation of percentage ownership of our common stock on 61,549,597 shares of our Class A common stock and 28,658,032 shares of our Class B common stock outstanding on March 31, 2017. We have deemed shares of our capital stock subject to stock options that are currently exercisable or exercisable within 60 days of March 31, 2017 to be outstanding and to be beneficially owned by the person holding the stock option for the purpose of computing the percentage ownership of that person. We have deemed shares of our capital stock subject to restricted stock units for which the service condition has been satisfied or would be satisfied within 60 days of March 31, 2017 to be outstanding and to be beneficially owned by the person holding the restricted stock units for the purpose of computing the percentage ownership of that person. However, we did not deem these shares subject to stock options or restricted stock units outstanding for the purpose of computing the percentage ownership of any other person.

Unless otherwise indicated, the address of each beneficial owner listed in the table below is c/o Twilio Inc., 375 Beale Street, Suite 300, San Francisco, California 94105.

	Shares Beneficially Owned					
	Class A		Class B			
Name of Beneficial Owner	Shares	%	Shares	%	Voting %†	Ownership %
Named Executive Officers and Directors:						
Jeff Lawson[(1)]	—	—	7,489,166	25.8	21.3	8.3
Lee Kirkpatrick[(2)]	4,535	*	714,563	2.4	2.0	*
Karyn Smith[(3)]	—	—	281,989	1.0	*	*
Richard Dalzell[(4)]	—	—	147,500	*	*	*
Byron Deeter[(5)]	176,181	*	11,310,389	39.5	32.5	12.7
Elena Donio[(6)]	—	—	12,302	*	*	*
James McGeever[(7)]	—	—	412,883	1.4	1.2	*
Scott Raney[(8)]	—	—	2,028,411	7.1	5.8	2.2
Erika Rottenberg	—	—	—	—	—	—
All executive officers and directors as a group (9 persons)[(9)]:	180,716	*	22,397,203	74.5	61.9	24.6
5% Stockholders:						
Bessemer Venture Partners and Related Entities[(10)]	—	—	11,310,389	39.5	32.5	12.5
Entities affiliated with Redpoint[(11)]	—	—	2,028,411	7.1	5.8	2.2
Entities affiliated with Fidelity[(12)]	5,067,582	8.2	—	—	1.5	5.6
T. Rowe Price[(13)]	9,811,600	15.9	—	—	2.8	10.9

* Represents beneficial ownership of less than one percent (1%) of the outstanding shares.

† Percentage of total voting power represents voting power with respect to all shares of our Class A common stock and Class B common stock, as a single class. The holders of our Class A common stock are entitled to one vote per share, and holders of our Class B common stock are entitled to ten votes per share.

(1) Consists of (i) 6,097,090 shares of Class B common stock held of record by Mr. Lawson, as trustee of the Lawson Revocable Trust, (ii) 323,170 shares of Class B common stock held of record by The Lawson 2014 Irrevocable Trust, J.P. Morgan Trust Company, as trustee, (iii) 740,364 shares of Class B common stock held of record by Mr. Lawson, as trustee of the Lawson 2014 GRAT, (iv) 316,667 shares of Class B common stock subject to outstanding options that are exercisable within 60 days of March 31, 2017 and (v) 11,875 shares of Class B common stock issuable upon the settlement of Restricted Stock Units ("RSUs") releasable within 60 days of March 31, 2017.

(2) Consists of (i) 4,535 shares of Class A common stock held of record by Mr. Kirkpatrick, (ii) 48,487 shares of Class B common stock held of record by Mr. Kirkpatrick and (iii) 666,076 shares of Class B Common stock subject to outstanding options that are exercisable within 60 days of March 31, 2017.

(3) Consists of (i) 12,887 shares of Class B common stock held of record by Ms. Smith, as trustee of The Karyn Smith Revocable Trust u/a/d 9/15/06, amended 12/23/11, (ii) 267,223 shares of Class B common stock subject to outstanding options that are exercisable within 60 days of March 31, 2017 and (iii) 1,879 shares of Class B common stock issuable upon the settlement of RSUs releasable within 60 days of March 31, 2017.

(4) Consists of 147,500 shares of Class B common stock subject to outstanding options that are exercisable by Mr. Dalzell within 60 days of March 31, 2017.

(5) Consists of (i) 176,181 shares of Class A common stock held by Byron B. Deeter and Allison K. Deeter Trustees UTD July 28, 2000 and (ii) shares held by the BVP entities identified in footnote 10. Byron B. Deeter, one of our directors, Robert P. Goodman, Jeremy S. Levine, Edmund Colloton, David Cowan and Robert M. Stavis are the directors of Deer VII & Co. Ltd. ("Deer VII Ltd.") and hold the voting and dispositive power for the BVP Entities identified in footnote 10. Investment and voting decisions with respect to the shares held by the BVP entities are made by the directors of Deer VII Ltd. acting as an investment committee.

(6) Consists of (i) 9,812 shares of Class B common stock held of record by Ms. Donio and (ii) 2,490 shares of Class B common stock issuable upon the settlement of RSUs releasable within 60 days of March 31, 2017.

(7) Consists of (i) 199,470 shares of Class B common stock held of record by Mr. McGeever and (ii) 213,413 shares of Class B common stock held of record by The James and Linda McGeever Revocable Trust.

(8) Consists of shares held by the Redpoint Entities identified in footnote 11. Mr. Raney, one of our directors, is one of the managing directors of Redpoint Omega II, LLC and shares voting and dispositive power with respect to the shares held directly by Redpoint Omega II, L.P. Mr. Raney is one of the managers of Redpoint Omega Associates II and shares voting and dispositive power with respect to the shares held directly by Redpoint Omega Associates II.

(9) Consists of: (i) 180,716 shares of Class A common stock held of record, (ii) 20,983,493 shares of Class B common stock held of record, (iii) 1,397,466 shares of Class B common stock subject to outstanding stock options that are exercisable within 60 days of March 31, 2017 and (iv) 16,244 shares of Class B common stock issuable upon the settlement of RSUs releasable within 60 days of March 31, 2017.

(10) Consists of (i) 1,552,677 shares of Class B common stock held of record by Bessemer Venture Partners VII Institutional L.P., (ii) 5,988,900 shares of Class B common stock held of record by BVP VII Special Opportunity Fund L.P., (iii) 3,548,975 shares of Class B common stock held of record by Bessemer Venture Partners VII L.P. and (iv) 219,837 shares of Class B Common stock held of record by 15 Angels LLC, a wholly owned subsidiary of Bessemer Venture Partners VII Institutional L.P. (collectively, the "BVP Entities"). Each of Deer VII & Co. L.P. ("Deer VII L.P"), the general partner of the BVP Entities, and Deer VII & Co. Ltd. ("Deer VII Ltd."), the general partner of Deer VII L.P., has voting and dispositive power over the shares held by the BVP Entities. J. Edmund Colloton, David J. Cowan, Byron B. Deeter, Robert P. Goodman, Jeremy S. Levine and Robert M. Stavis are the directors of Deer VII Ltd. Investment and voting decisions with respect to the shares held by the BVP Entities are made by the directors of Deer VII Ltd. acting as an investment committee. The address for each of these entities is c/o Bessemer Venture Partners, 1865 Palmer Avenue, Suite 104, Larchmont, New York 10538.

(11) Consists of (i) 60,851 shares of Class B common stock held of record by Redpoint Omega Associates II, LLC and (ii) 1,967,560 shares of Class B common stock held of record by Redpoint Omega II, LP (collectively, the "Redpoint Entities"). Redpoint Omega II, LLC is the general partner of Redpoint Omega II, LP. Mr. Raney, one of our directors, is one of the managing directors of Redpoint Omega II, LLC and shares voting and dispositive power with respect to the shares held directly by Redpoint Omega II, LP. Mr. Raney is one of the managers of Redpoint Omega Associates II, LLC and shares voting and dispositive power with respect to the shares held directly by Redpoint Omega Associates II, LLC.

(12) Based on information reported by FMR LLC on Schedule 13G filed with the SEC on February 14, 2017. Of the shares of Class A common stock beneficially owned, FMR LLC reported that it has sole dispositive power with respect to 5,067,582 shares and sole voting power with respect to 210,419 shares. FMR LLC listed its address as 245 Summer Street, Boston, Massachusetts 02210.

(13) Based on information reported by T. Rowe Price Associates, Inc. and T. Rowe Price New Horizons Fund, Inc. on Schedule 13G filed with the SEC on March 10, 2017. Of the shares of Class A common stock beneficially owned, T. Rowe Price Associates reported that it has sole dispositive power with respect to 9,811,600 shares and sole voting power with respect to 2,044,655 shares and T. Rowe Price New Horizons Fund, Inc. reported that it has sole voting power with respect to 5,122,228 shares. T. Rowe Price Associates Inc., and T. Rowe Price New Horizons Fund, Inc. listed their address as 100 E. Pratt Street, Baltimore, Maryland 21202.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

In addition to the compensation arrangements, including employment, termination of employment and change in control arrangements, discussed in the section titled "Executive Compensation" the following is a description of each transaction since the beginning of our last fiscal year, and each currently proposed transaction in which:

- we have been or are to be a participant;
- the amount involved exceeded or exceeds $120,000; and
- any of our directors, executive officers, or holders of more than 5% of our capital stock, or any immediate family member of, or person sharing the household with, any of these individuals, had or will have a direct or indirect material interest.

Investors' Rights Agreement

We are party to an investors' rights agreement which provides, among other things, that certain holders of our capital stock have the right to demand that we file a registration statement or request that their shares of our capital stock be covered by a registration statement that we are otherwise filing. The parties to the investors' rights agreement include entities affiliated with Jeff Lawson and James McGeever, both our current directors, Evan Cooke, a former director, and entities affiliated with Fidelity, Bessemer Venture Partners, Redpoint Ventures and Union Square Ventures.

Other Transactions

We have granted stock options and RSUs to our named executive officers and certain of our directors. See the section titled "Executive Compensation—Outstanding Equity Awards at 2016 Year-End Table" for a description of these stock options and RSUs.

We have entered into change in control agreements with certain of our executive officers pursuant to offer letters and/or our change in control severance policy that, among other things, provides for certain severance and change in control benefits. See the section titled "Executive Compensation—Executive Severance Plan."

Other than as described above under this section titled "Certain Relationships and Related Party Transactions," since January 1, 2016, we have not entered into any transactions, nor are there any currently proposed transactions, between us and a related party where the amount involved exceeds, or would exceed, $120,000, and in which any related person had or will have a direct or indirect material interest. We believe the terms of the transactions described above were comparable to terms we could have obtained in arm's-length dealings with unrelated third parties.

Indemnification of Officers and Directors

Our amended and restated certificate of incorporation contains provisions that limit the liability of our directors for monetary damages to the fullest extent permitted by Delaware law. Consequently, our directors will not be personally liable to us or our stockholders for monetary damages for any breach of fiduciary duties as directors, except liability for the following:

- any breach of their duty of loyalty to our Company or our stockholders;
- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the Delaware General Corporation Law; or
- any transaction from which they derived an improper personal benefit.

Any amendment to, or repeal of, these provisions will not eliminate or reduce the effect of these provisions in respect of any act, omission or claim that occurred or arose prior to that amendment or repeal. If the Delaware General Corporation Law is amended to provide for further limitations on the personal liability of directors of corporations, then the personal liability of our directors will be further limited to the greatest extent permitted by the Delaware General Corporation Law.

In addition, our amended and restated bylaws provide that we will indemnify, to the fullest extent permitted by law, any person who is or was a party or is threatened to be made a party to any action, suit or proceeding by reason of the fact that he or she is or was one of our directors or officers or is or was serving at our request as a director or officer of another corporation, partnership, joint venture, trust or other enterprise. Our amended and restated bylaws provide that we may indemnify to the fullest extent permitted by law any person who is or was a party or is threatened to be made a party to any action, suit or proceeding by reason of the fact that he or she is or was one of our employees or agents or is or was serving at our request as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise. Our amended and restated bylaws also provide that we must advance expenses incurred by or on behalf of a director or officer in advance of the final disposition of any action or proceeding, subject to limited exceptions.

Further, we have entered into indemnification agreements with each of our directors and executive officers that may be broader than the specific indemnification provisions contained in the Delaware General Corporation Law. These indemnification agreements require us, among other things, to indemnify our directors and executive officers against liabilities that may arise by reason of their status or service. These indemnification agreements also require us to advance all expenses incurred by the directors and executive officers in investigating or defending any such action, suit or proceeding. We believe that these agreements are necessary to attract and retain qualified individuals to serve as directors and executive officers.

The limitation of liability and indemnification provisions that are included in our amended and restated certificate of incorporation, amended and restated bylaws and in indemnification agreements that we have entered into with our directors and executive officers may discourage stockholders from bringing a lawsuit against our directors and executive officers for breach of their fiduciary duties. They may also reduce the likelihood of derivative litigation against our directors and executive officers, even though an action, if successful, might benefit us and other stockholders. Further, a stockholder's investment may be adversely affected to the extent that we pay the costs of settlement and damage awards against directors and executive officers as required by these indemnification provisions. At present, we are not aware of any pending litigation or proceeding involving any person who is or was one of our directors, officers, employees or other agents or is or was serving at our request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, for which indemnification is sought, and we are not aware of any threatened litigation that may result in claims for indemnification.

We have obtained insurance policies under which, subject to the limitations of the policies, coverage is provided to our directors and executive officers against loss arising from claims made by reason of breach of fiduciary duty or other wrongful acts as a director or executive officer, including claims relating to public securities matters, and to us with respect to payments that may be made by us to these directors and executive officers pursuant to our indemnification obligations or otherwise as a matter of law.

Certain of our non-employee directors may, through their relationships with their employers, be insured and/or indemnified against certain liabilities incurred in their capacity as members of our board of directors.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling our Company pursuant to the foregoing provisions, we have been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Policies and Procedures for Related Party Transactions

Our audit committee has the primary responsibility for reviewing and approving or disapproving "related party transactions," which are transactions between us and related persons in which the aggregate amount involved exceeds or may be expected to exceed $120,000 and in which a related person has or will have a direct or indirect material interest. Our policy regarding transactions between us and related persons will provide that a related person is defined as a director, executive officer, nominee for director or greater than 5% beneficial owner of our Class A and Class B common stock, in each case since the beginning of the most recently completed year, and any of their immediate family members. Our audit committee charter provides that our audit committee shall review and approve or disapprove any related party transactions.

OTHER MATTERS

Section 16(A) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires that our executive officers and directors, and persons who own more than 10% of our common stock, file reports of ownership and changes of ownership with the SEC. Such directors, executive officers and 10% stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file.

SEC regulations require us to identify in this proxy statement anyone who filed a required report late during the most recent year. Based on our review of forms we received, or written representations from reporting persons stating that they were not required to file these forms, we believe that during 2016, all Section 16(a) filing requirements were satisfied on a timely basis, except that one form to report the conversion of Class B common stock to Class A common stock by Union Square Ventures 2008 LP was filed late because of an inadvertent administrative error. Such late filings did not result in any liability under Section 16(b) of the Securities Exchange Act of 1934, as amended.

2016 Annual Report and SEC Filings

Our financial statements for the year ended December 31, 2016 are included in our annual report on Form 10-K, which we will make available to stockholders at the same time as this proxy statement. Our annual report and this proxy statement are posted on our website at https://investors.twilio.com and are available from the SEC at its website at www.sec.gov. You may also obtain a copy of our annual report without charge by sending a written request to Investor Relations, Twilio Inc., 375 Beale Street, Suite 300, San Francisco, California 94105.

*   *   *

The board of directors does not know of any other matters to be presented at the Annual Meeting. If any additional matters are properly presented at the Annual Meeting, the persons named in the enclosed proxy card will have discretion to vote shares they represent in accordance with their own judgment on such matters.

It is important that your shares be represented at the Annual Meeting, regardless of the number of shares that you hold. You are, therefore, urged to vote by telephone or by using the Internet as instructed on the enclosed proxy card or execute and return, at your earliest convenience, the enclosed proxy card in the envelope that has also been provided.

THE BOARD OF DIRECTORS

San Francisco, California
April 24, 2017

APPENDIX A

TWILIO INC.

2016 STOCK OPTION AND INCENTIVE PLAN

SECTION 1. *GENERAL PURPOSE OF THE PLAN; DEFINITIONS*

The name of the plan is the Twilio Inc. 2016 Stock Option and Incentive Plan (the "Plan"). The purpose of the Plan is to encourage and enable the officers, employees, Non-Employee Directors and Consultants of Twilio Inc. (the "Company") and its Subsidiaries upon whose judgment, initiative and efforts the Company largely depends for the successful conduct of its businesses to acquire a proprietary interest in the Company. It is anticipated that providing such persons with a direct stake in the Company's welfare will assure a closer identification of their interests with those of the Company and its stockholders, thereby stimulating their efforts on the Company's behalf and strengthening their desire to remain with the Company.

The following terms shall be defined as set forth below:

"Act" means the Securities Act of 1933, as amended, and the rules and regulations thereunder.

"Administrator" means either the Board or the compensation committee of the Board or a similar committee performing the functions of the compensation committee and which is comprised of not less than two Non-Employee Directors who are independent.

"Award" or *"Awards,"* except where referring to a particular category of grant under the Plan, shall include Incentive Stock Options, Non-Qualified Stock Options, Stock Appreciation Rights, Restricted Stock Units, Restricted Stock Awards, Unrestricted Stock Awards, Cash-Based Awards, Performance Share Awards and Dividend Equivalent Rights.

"Award Certificate" means a written or electronic document setting forth the terms and provisions applicable to an Award granted under the Plan. Each Award Certificate is subject to the terms and conditions of the Plan.

"Board" means the Board of Directors of the Company.

"Cash-Based Award" means an Award entitling the recipient to receive a cash-denominated payment.

"Code" means the Internal Revenue Code of 1986, as amended, and any successor Code, and related rules, regulations and interpretations.

"Consultant" means any natural person that provides bona fide services to the Company, and such services are not in connection with the offer or sale of securities in a capital-raising transaction and do not directly or indirectly promote or maintain a market for the Company's securities.

"Covered Employee" means an employee who is a "Covered Employee" within the meaning of Section 162(m) of the Code.

"Dividend Equivalent Right" means an Award entitling the grantee to receive credits based on cash dividends that would have been paid on the shares of Stock specified in the Dividend Equivalent Right (or other award to which it relates) if such shares had been issued to and held by the grantee.

"Effective Date" means the date on which the Plan becomes effective as set forth in Section 21.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder.

"Fair Market Value" of the Stock on any given date means the fair market value of the Stock determined in good faith by the Administrator; provided, however, that if the Stock is admitted to

quotation on the New York Stock Exchange (the "NYSE") or another national securities exchange, the determination shall be made by reference to market quotations. If there are no market quotations for such date, the determination shall be made by reference to the last date preceding such date for which there are market quotations; provided further, however, that if the date for which Fair Market Value is determined is the first day when trading prices for the Stock are reported on the NYSE or another national securities exchange, the Fair Market Value shall be the "Price to the Public" (or equivalent) set forth on the cover page for the final prospectus relating to the Company's Initial Public Offering.

"Incentive Stock Option" means any Stock Option designated and qualified as an "incentive stock option" as defined in Section 422 of the Code.

"Initial Public Offering" means the first underwritten, firm commitment public offering pursuant to an effective registration statement under the Act covering the offer and sale by the Company of its equity securities, or such other event as a result of or following which the Stock shall be publicly held.

"Non-Employee Director" means a member of the Board who is not also an employee of the Company or any Subsidiary.

"Non-Qualified Stock Option" means any Stock Option that is not an Incentive Stock Option.

"Option" or *"Stock Option"* means any option to purchase shares of Stock granted pursuant to Section 5.

"Performance-Based Award" means any Restricted Stock Award, Restricted Stock Units, Performance Share Award or Cash-Based Award granted to a Covered Employee that is intended to qualify as "performance-based compensation" under Section 162(m) of the Code and the regulations promulgated thereunder.

"Performance Criteria" means the criteria that the Administrator selects for purposes of establishing the Performance Goal or Performance Goals for an individual for a Performance Cycle. The Performance Criteria (which shall be applicable to the organizational level specified by the Administrator, including, but not limited to, the Company or a unit, division, group, or Subsidiary of the Company) that will be used to establish Performance Goals are limited to the following: sales or revenue or bookings; sales or revenue or bookings mix; sales or market shares; expense; margins; operating efficiency; earnings before interest, taxes, depreciation and amortization; net income (loss) (either before or after interest, taxes, depreciation and/or amortization); operating income (loss); earnings (loss) per share of Stock; working capital; operating cash flow (funds from operations) and free cash flow; customer satisfaction, Net Promoter Score; customer churn; number of customers; customer retention and expansion; return on sales, gross or net profit levels; return on capital, assets, equity, or investment; changes in the market price of the Stock; total shareholder return; quality and reliability; productivity; economic value-added; and acquisitions or strategic transactions, any of which may be measured either in absolute terms or as compared to any incremental increase or as compared to results of a peer group. The Committee may appropriately adjust any evaluation performance under a Performance Criterion to exclude any of the following events that occurs during a Performance Cycle: (i) asset write-downs or impairments, (ii) litigation or claim judgments or settlements, (iii) the effect of changes in tax law, accounting principles or other such laws or provisions affecting reporting results, (iv) accruals for reorganizations and restructuring programs, and (v) any item of an unusual nature or of a type that indicates infrequency of occurrence, or both, including those described in the Financial Accounting Standards Board's authoritative guidance and/or in management's discussion and analysis of financial condition of operations appearing the Company's annual report to stockholders for the applicable year.

"Performance Cycle" means one or more periods of time, which may be of varying and overlapping durations, as the Administrator may select, over which the attainment of one or more Performance Criteria will be measured for the purpose of determining a grantee's right to and the payment of a

Restricted Stock Award, Restricted Stock Units, Performance Share Award or Cash-Based Award, the vesting and/or payment of which is subject to the attainment of one or more Performance Goals. Each such period shall not be less than 12 months.

"Performance Goals" means, for a Performance Cycle, the specific goals established in writing by the Administrator for a Performance Cycle based upon the Performance Criteria.

"Performance Share Award" means an Award entitling the recipient to acquire shares of Stock upon the attainment of specified performance goals.

"Restricted Shares" means the shares of Stock underlying a Restricted Stock Award that remain subject to a risk of forfeiture or the Company's right of repurchase.

"Restricted Stock Award" means an Award of Restricted Shares subject to such restrictions and conditions as the Administrator may determine at the time of grant.

"Restricted Stock Units" means an Award of stock units subject to such restrictions and conditions as the Administrator may determine at the time of grant.

"Sale Event" shall mean (i) the sale of all or substantially all of the assets of the Company on a consolidated basis to an unrelated person or entity, (ii) a merger, reorganization or consolidation pursuant to which the holders of the Company's outstanding voting power and outstanding stock immediately prior to such transaction do not own a majority of the outstanding voting power and outstanding stock or other equity interests of the resulting or successor entity (or its ultimate parent, if applicable) immediately upon completion of such transaction, (iii) the sale of all of the Stock of the Company to an unrelated person, entity or group thereof acting in concert, or (iv) any other transaction in which the owners of the Company's outstanding voting power immediately prior to such transaction do not own at least a majority of the outstanding voting power of the Company or any successor entity immediately upon completion of the transaction other than as a result of the acquisition of securities directly from the Company.

"*Sale Price*" means the value as determined by the Administrator of the consideration payable, or otherwise to be received by stockholders, per share of Stock pursuant to a Sale Event.

"Section 409A" means Section 409A of the Code and the regulations and other guidance promulgated thereunder.

"Stock" means the Class A common stock, par value $0.001 per share, of the Company, subject to adjustments pursuant to Section 3.

"Stock Appreciation Right" means an Award entitling the recipient to receive shares of Stock having a value equal to the excess of the Fair Market Value of the Stock on the date of exercise over the exercise price of the Stock Appreciation Right multiplied by the number of shares of Stock with respect to which the Stock Appreciation Right shall have been exercised.

"Subsidiary" means any corporation or other entity (other than the Company) in which the Company has at least a 50 percent interest, either directly or indirectly.

"Ten Percent Owner" means an employee who owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10 percent of the combined voting power of all classes of stock of the Company or any parent or subsidiary corporation.

"Unrestricted Stock Award" means an Award of shares of Stock free of any restrictions.

SECTION 2. *ADMINISTRATION OF PLAN; ADMINISTRATOR AUTHORITY TO SELECT GRANTEES AND DETERMINE AWARDS*

(a) *Administration of Plan.* The Plan shall be administered by the Administrator.

(b) *Powers of Administrator.* The Administrator shall have the power and authority to grant Awards consistent with the terms of the Plan, including the power and authority:

(i) to select the individuals to whom Awards may from time to time be granted;

(ii) to determine the time or times of grant, and the extent, if any, of Incentive Stock Options, Non-Qualified Stock Options, Stock Appreciation Rights, Restricted Stock Awards, Restricted Stock Units, Unrestricted Stock Awards, Cash-Based Awards, Performance Share Awards and Dividend Equivalent Rights, or any combination of the foregoing, granted to any one or more grantees;

(iii) to determine the number of shares of Stock to be covered by any Award;

(iv) to determine and modify from time to time the terms and conditions, including restrictions, not inconsistent with the terms of the Plan, of any Award, which terms and conditions may differ among individual Awards and grantees, and to approve the forms of Award Certificates;

(v) to accelerate at any time the exercisability or vesting of all or any portion of any Award;

(vi) subject to the provisions of Section 5(c), to extend at any time the period in which Stock Options may be exercised; and

(vii) at any time to adopt, alter and repeal such rules, guidelines and practices for administration of the Plan and for its own acts and proceedings as it shall deem advisable; to interpret the terms and provisions of the Plan and any Award (including related written instruments); to make all determinations it deems advisable for the administration of the Plan; to decide all disputes arising in connection with the Plan; and to otherwise supervise the administration of the Plan.

All decisions and interpretations of the Administrator shall be binding on all persons, including the Company and Plan grantees.

(c) *Delegation of Authority to Grant Awards.* Subject to applicable law, the Administrator, in its discretion, may delegate to the Chief Executive Officer or a committee comprised of the Chief Executive Officer and one or more other officer of the Company, all or part of the Administrator's authority and duties with respect to the granting of Awards to individuals who are (i) not subject to the reporting and other provisions of Section 16 of the Exchange Act and (ii) not Covered Employees. Any such delegation by the Administrator shall include a limitation as to the amount of Stock underlying Awards that may be granted during the period of the delegation and shall contain guidelines as to the determination of the exercise price and the vesting criteria. The Administrator may revoke or amend the terms of a delegation at any time but such action shall not invalidate any prior actions of the Administrator's delegate or delegates that were consistent with the terms of the Plan.

(d) *Award Certificate.* Awards under the Plan shall be evidenced by Award Certificates that set forth the terms, conditions and limitations for each Award which may include, without limitation, the term of an Award and the provisions applicable in the event employment or service terminates.

(e) *Indemnification.* Neither the Board nor the Administrator, nor any member of either or any delegate thereof, shall be liable for any act, omission, interpretation, construction or determination made in good faith in connection with the Plan, and the members of the Board and the Administrator (and any delegate thereof) shall be entitled in all cases to indemnification and reimbursement by the Company in respect of any claim, loss, damage or expense (including, without limitation, reasonable attorneys' fees) arising or resulting therefrom to the fullest extent permitted by law and/or under the Company's articles or bylaws or any directors' and officers' liability insurance coverage which may be in effect from time to time and/or any indemnification agreement between such individual and the Company.

(f) *Non-U.S. Award Recipients.* Notwithstanding any provision of the Plan to the contrary, in order to comply with the laws in other countries in which the Company and its Subsidiaries operate or have employees or other individuals eligible for Awards, the Administrator, in its sole discretion, shall have the power and authority to: (i) determine which Subsidiaries shall be covered by the Plan; (ii) determine which individuals outside the United States are eligible to participate in the Plan; (iii) modify the terms and conditions of any Award granted to individuals outside the United States to comply with applicable foreign laws; (iv) establish subplans and modify exercise procedures and other terms and procedures, to the extent the Administrator determines such actions to be necessary or advisable (and such subplans and/or modifications shall be attached to this Plan as appendices); provided, however, that no such subplans and/or modifications shall increase the share limitations contained in Section 3(a) hereof; and (v) take any action, before or after an Award is made, that the Administrator determines to be necessary or advisable to obtain approval or comply with any local governmental regulatory exemptions or approvals. Notwithstanding the foregoing, the Administrator may not take any actions hereunder, and no Awards shall be granted, that would violate the Exchange Act or any other applicable United States securities law, the Code, or any other applicable United States governing statute or law.

SECTION 3. *STOCK ISSUABLE UNDER THE PLAN; MERGERS; SUBSTITUTION*

(a) *Stock Issuable.* The maximum number of shares of Stock reserved and available for issuance under the Plan shall be 11,500,000 shares (the "Initial Limit"), plus on January 1, 2017 and each January 1 thereafter, the number of shares of Stock reserved and available for issuance under the Plan shall be cumulatively increased by 5 percent of the number of shares of Class A and Class B common stock of the Company issued and outstanding on the immediately preceding December 31 or such lesser number of shares of Stock as determined by the Administrator in its sole discretion (the "Annual Increase"), subject, in each case, to adjustment as provided in Section 3(c). Subject to such overall limitation, the maximum aggregate number of shares of Stock that may be issued in the form of Incentive Stock Options shall not exceed the Initial Limit cumulatively increased on January 1, 2017 and on each January 1 thereafter by the lesser of the Annual Increase for such year or 5,750,000 shares of Stock, subject in all cases to adjustment as provided in this Section 3. For purposes of this limitation, the shares of Stock underlying any Awards under the Plan or the shares of Class B common stock of the Company under the Company's 2008 Stock Option Plan, as amended and restated, that are forfeited, canceled, held back upon exercise of an Option or settlement of an Award to cover the exercise price or tax withholding, reacquired by the Company prior to vesting, satisfied without the issuance of stock or otherwise terminated (other than by exercise) shall be added back to the shares of Stock available for issuance under the Plan (provided, that any such shares of Class B common stock of the Company shall first be converted to shares of Class A common stock of the Company). In the event the Company repurchases shares of stock on the open market, such shares shall not be added to the shares of Stock available for issuance under the Plan. Subject to such overall limitations, shares of Stock may be issued up to such maximum number pursuant to any type or types of Award; provided, however, that Stock Options or Stock Appreciation Rights with respect to no more than 11,500,000 shares of Stock may be granted to any one individual grantee during any one calendar year period. The shares available for issuance under the Plan may be authorized but unissued shares of Stock or shares of Stock reacquired by the Company.

(b) *Maximum Awards to Non-Employee Directors.* Notwithstanding anything to the contrary in this Plan, the value of all Awards awarded under this Plan and all other cash compensation paid by the Company to any Non-Employee Director in any calendar year shall not exceed $750,000. For the purpose of this limitation, the value of any Award shall be its grant date fair value, as determined in accordance with ASC 718 or successor provision but excluding the impact of estimated forfeitures related to service-based vesting provisions.

(c) *Changes in Stock.* Subject to Section 3(d) hereof, if, as a result of any reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or other similar change in the Company's capital stock, the outstanding shares of Stock are increased or decreased or are exchanged for a different number or kind of shares or other securities of the Company, or additional shares or new or different shares or other securities of the Company or other non-cash assets are distributed with respect to such shares of Stock or other securities, or, if, as a result of any merger or consolidation, sale of all or substantially all of the assets of the Company, the outstanding shares of Stock are converted into or exchanged for securities of the Company or any successor entity (or a parent or subsidiary thereof), the Administrator shall make an appropriate or proportionate adjustment in (i) the maximum number of shares reserved for issuance under the Plan, including the maximum number of shares that may be issued in the form of Incentive Stock Options, (ii) the number of Stock Options or Stock Appreciation Rights that can be granted to any one individual grantee and the maximum number of shares that may be granted under a Performance-Based Award, (iii) the number and kind of shares or other securities subject to any then outstanding Awards under the Plan, (iv) the repurchase price, if any, per share subject to each outstanding Restricted Stock Award, and (v) the exercise price for each share subject to any then outstanding Stock Options and Stock Appreciation Rights under the Plan, without changing the aggregate exercise price (i.e., the exercise price multiplied by the number of Stock Options and Stock Appreciation Rights) as to which such Stock Options and Stock Appreciation Rights remain exercisable. The Administrator shall also make equitable or proportionate adjustments in the number of shares subject to outstanding Awards and the exercise price and the terms of outstanding Awards to take into consideration cash dividends paid other than in the ordinary course or any other extraordinary corporate event. The adjustment by the Administrator shall be final, binding and conclusive. No fractional shares of Stock shall be issued under the Plan resulting from any such adjustment, but the Administrator in its discretion may make a cash payment in lieu of fractional shares.

(d) *Mergers and Other Transactions.* In the case of and subject to the consummation of a Sale Event, the parties thereto may cause the assumption or continuation of Awards theretofore granted by the successor entity, or the substitution of such Awards with new Awards of the successor entity or parent thereof, with appropriate adjustment as to the number and kind of shares and, if appropriate, the per share exercise prices, as such parties shall agree. To the extent the parties to such Sale Event do not provide for the assumption, continuation or substitution of Awards, upon the effective time of the Sale Event, the Plan and all outstanding Awards granted hereunder shall terminate. In the event of such termination, except as may be otherwise provided in the relevant Award Certificate, all Options and Stock Appreciation Rights with time-based vesting, conditions or restrictions that are not vested and/or exercisable immediately prior to the effective time of the Sale Event shall become fully vested and exercisable as of the effective time of the Sale Event, all other Awards with time-based vesting, conditions or restrictions shall become fully vested and nonforfeitable as of the effective time of the Sale Event, and all Awards with conditions and restrictions relating to the attainment of performance goals may become vested and nonforfeitable in connection with a Sale Event in the Administrator's discretion or to the extent specified in the relevant Award Certificate. In the event of such termination, (i) the Company shall have the option (in its sole discretion) to make or provide for a payment, in cash or in kind, to the grantees holding Options and Stock Appreciation Rights, in exchange for the cancellation thereof, in an amount equal to the difference between (A) the Sale Price multiplied by the number of shares of Stock subject to outstanding Options and Stock Appreciation Rights (to the extent then exercisable at prices not in excess of the Sale Price) and (B) the aggregate exercise price of all such outstanding Options and Stock Appreciation Rights; or (ii) each grantee shall be permitted, within a specified period of time prior to the consummation of the Sale Event as determined by the Administrator, to exercise all outstanding Options and Stock Appreciation Rights (to the extent then exercisable) held by such grantee. The Company shall also have the option (in its sole discretion) to make or provide for a payment, in cash or in kind, to the grantees holding other Awards in an amount equal to the Sale Price multiplied by the number of vested shares of Stock under such Awards.

SECTION 4. *ELIGIBILITY*

Grantees under the Plan will be such full or part-time officers and other employees, Non-Employee Directors and Consultants of the Company and its Subsidiaries as are selected from time to time by the Administrator in its sole discretion.

SECTION 5. *STOCK OPTIONS*

(a) *Award of Stock Options.* The Administrator may grant Stock Options under the Plan. Any Stock Option granted under the Plan shall be in such form as the Administrator may from time to time approve.

Stock Options granted under the Plan may be either Incentive Stock Options or Non-Qualified Stock Options. Incentive Stock Options may be granted only to employees of the Company or any Subsidiary that is a "subsidiary corporation" within the meaning of Section 424(f) of the Code. To the extent that any Option does not qualify as an Incentive Stock Option, it shall be deemed a Non-Qualified Stock Option.

Stock Options granted pursuant to this Section 5 shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Administrator shall deem desirable. If the Administrator so determines, Stock Options may be granted in lieu of cash compensation at the optionee's election, subject to such terms and conditions as the Administrator may establish.

(b) *Exercise Price.* The exercise price per share for the Stock covered by a Stock Option granted pursuant to this Section 5 shall be determined by the Administrator at the time of grant but shall not be less than 100 percent of the Fair Market Value on the date of grant. In the case of an Incentive Stock Option that is granted to a Ten Percent Owner, the option price of such Incentive Stock Option shall be not less than 110 percent of the Fair Market Value on the grant date.

(c) *Option Term.* The term of each Stock Option shall be fixed by the Administrator, but no Stock Option shall be exercisable more than ten years after the date the Stock Option is granted. In the case of an Incentive Stock Option that is granted to a Ten Percent Owner, the term of such Stock Option shall be no more than five years from the date of grant.

(d) *Exercisability; Rights of a Stockholder.* Stock Options shall become exercisable at such time or times, whether or not in installments, as shall be determined by the Administrator at or after the grant date. The Administrator may at any time accelerate the exercisability of all or any portion of any Stock Option. An optionee shall have the rights of a stockholder only as to shares acquired upon the exercise of a Stock Option and not as to unexercised Stock Options.

(e) *Method of Exercise.* Stock Options may be exercised in whole or in part, by giving written or electronic notice of exercise to the Company, specifying the number of shares to be purchased. Payment of the purchase price may be made by one or more of the following methods except to the extent otherwise provided in the Option Award Certificate:

(i) In cash, by certified or bank check or other instrument acceptable to the Administrator;

(ii) Through the delivery (or attestation to the ownership following such procedures as the Company may prescribe) of shares of Stock that are not then subject to restrictions under any Company plan. Such surrendered shares shall be valued at Fair Market Value on the exercise date;

(iii) By the optionee delivering to the Company a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Company cash or a check payable and acceptable to the Company for the purchase price; provided that in the event the optionee chooses to pay the purchase price as so provided, the optionee and the broker shall comply with such procedures and enter into such agreements of indemnity and other agreements as the Company shall prescribe as a condition of such payment procedure; or

(iv) With respect to Stock Options that are not Incentive Stock Options, by a "net exercise" arrangement pursuant to which the Company will reduce the number of shares of Stock issuable upon exercise by the largest whole number of shares with a Fair Market Value that does not exceed the aggregate exercise price.

Payment instruments will be received subject to collection. The transfer to the optionee on the records of the Company or of the transfer agent of the shares of Stock to be purchased pursuant to the exercise of a Stock Option will be contingent upon receipt from the optionee (or a purchaser acting in his stead in accordance with the provisions of the Stock Option) by the Company of the full purchase price for such shares and the fulfillment of any other requirements contained in the Option Award Certificate or applicable provisions of laws (including the satisfaction of any withholding taxes that the Company is obligated to withhold with respect to the optionee). In the event an optionee chooses to pay the purchase price by previously-owned shares of Stock through the attestation method, the number of shares of Stock transferred to the optionee upon the exercise of the Stock Option shall be net of the number of attested shares. In the event that the Company establishes, for itself or using the services of a third party, an automated system for the exercise of Stock Options, such as a system using an internet website or interactive voice response, then the paperless exercise of Stock Options may be permitted through the use of such an automated system.

(f) *Annual Limit on Incentive Stock Options.* To the extent required for "incentive stock option" treatment under Section 422 of the Code, the aggregate Fair Market Value (determined as of the time of grant) of the shares of Stock with respect to which Incentive Stock Options granted under this Plan and any other plan of the Company or its parent and subsidiary corporations become exercisable for the first time by an optionee during any calendar year shall not exceed $100,000. To the extent that any Stock Option exceeds this limit, it shall constitute a Non-Qualified Stock Option.

SECTION 6. *STOCK APPRECIATION RIGHTS*

(a) *Award of Stock Appreciation Rights.* The Administrator may grant Stock Appreciation Rights under the Plan. A Stock Appreciation Right is an Award entitling the recipient to receive shares of Stock having a value equal to the excess of the Fair Market Value of a share of Stock on the date of exercise over the exercise price of the Stock Appreciation Right multiplied by the number of shares of Stock with respect to which the Stock Appreciation Right shall have been exercised.

(b) *Exercise Price of Stock Appreciation Rights.* The exercise price of a Stock Appreciation Right shall not be less than 100 percent of the Fair Market Value of the Stock on the date of grant.

(c) *Grant and Exercise of Stock Appreciation Rights.* Stock Appreciation Rights may be granted by the Administrator independently of any Stock Option granted pursuant to Section 5 of the Plan.

(d) *Terms and Conditions of Stock Appreciation Rights.* Stock Appreciation Rights shall be subject to such terms and conditions as shall be determined from time to time by the Administrator. The term of a Stock Appreciation Right may not exceed ten years.

SECTION 7. *RESTRICTED STOCK AWARDS*

(a) *Nature of Restricted Stock Awards.* The Administrator may grant Restricted Stock Awards under the Plan. A Restricted Stock Award is any Award of Restricted Shares subject to such restrictions and conditions as the Administrator may determine at the time of grant. Conditions may be based on continuing employment (or other service relationship) and/or achievement of pre-established performance goals and objectives. The terms and conditions of each such Award shall be determined by the Administrator, and such terms and conditions may differ among individual Awards and grantees.

(b) *Rights as a Stockholder.* Upon the grant of the Restricted Stock Award and payment of any applicable purchase price, a grantee shall have the rights of a stockholder with respect to the voting of the Restricted Shares and receipt of dividends; provided that if the lapse of restrictions with respect to the Restricted Stock Award is tied to the attainment of performance goals, any dividends paid by the Company during the performance period shall accrue and shall not be paid to the grantee until and to the extent the performance goals are met with respect to the Restricted Stock Award. Unless the Administrator shall otherwise determine, (i) uncertificated Restricted Shares shall be accompanied by a notation on the records of the Company or the transfer agent to the effect that they are subject to forfeiture until such Restricted Shares are vested as provided in Section 7(d) below, and (ii) certificated Restricted Shares shall remain in the possession of the Company until such Restricted Shares are vested as provided in Section 7(d) below, and the grantee shall be required, as a condition of the grant, to deliver to the Company such instruments of transfer as the Administrator may prescribe.

(c) *Restrictions.* Restricted Shares may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as specifically provided herein or in the Restricted Stock Award Certificate. Except as may otherwise be provided by the Administrator either in the Award Certificate or, subject to Section 18 below, in writing after the Award is issued, if a grantee's employment (or other service relationship) with the Company and its Subsidiaries terminates for any reason, any Restricted Shares that have not vested at the time of termination shall automatically and without any requirement of notice to such grantee from or other action by or on behalf of, the Company be deemed to have been reacquired by the Company at its original purchase price (if any) from such grantee or such grantee's legal representative simultaneously with such termination of employment (or other service relationship), and thereafter shall cease to represent any ownership of the Company by the grantee or rights of the grantee as a stockholder. Following such deemed reacquisition of Restricted Shares that are represented by physical certificates, a grantee shall surrender such certificates to the Company upon request without consideration.

(d) *Vesting of Restricted Shares.* The Administrator at the time of grant shall specify the date or dates and/or the attainment of pre-established performance goals, objectives and other conditions on which the non-transferability of the Restricted Shares and the Company's right of repurchase or forfeiture shall lapse. Subsequent to such date or dates and/or the attainment of such pre-established performance goals, objectives and other conditions, the shares on which all restrictions have lapsed shall no longer be Restricted Shares and shall be deemed "vested."

SECTION 8. *RESTRICTED STOCK UNITS*

(a) *Nature of Restricted Stock Units.* The Administrator may grant Restricted Stock Units under the Plan. A Restricted Stock Unit is an Award of stock units that may be settled in shares of Stock upon the satisfaction of such restrictions and conditions at the time of grant. Conditions may be based on continuing employment (or other service relationship) and/or achievement of pre-established performance goals and objectives. The terms and conditions of each such Award shall be determined by the Administrator, and such terms and conditions may differ among individual Awards and grantees. Except in the case of Restricted Stock Units with a deferred settlement date that complies with Section 409A, at the end of the vesting period, the Restricted Stock Units, to the extent vested, shall be settled in the form of shares of Stock. Restricted Stock Units with deferred settlement dates are subject to Section 409A and shall contain such additional terms and conditions as the Administrator shall determine in its sole discretion in order to comply with the requirements of Section 409A.

(b) *Election to Receive Restricted Stock Units in Lieu of Compensation.* The Administrator may, in its sole discretion, permit a grantee to elect to receive a portion of future cash compensation otherwise due to such grantee in the form of an award of Restricted Stock Units. Any such election shall be made in writing and shall be delivered to the Company no later than the date specified by the Administrator and in accordance with Section 409A and such other rules and procedures established by the Administrator. Any such future cash compensation that the grantee elects to defer shall be converted to a fixed number of Restricted Stock Units based on the Fair Market Value of Stock on the date the compensation would otherwise have been paid to the grantee if such payment had not been deferred as provided herein. The Administrator shall have the sole right to determine whether and under what circumstances to permit such elections and to impose such limitations and other terms and conditions thereon as the Administrator deems appropriate. Any Restricted Stock Units that are elected to be received in lieu of cash compensation shall be fully vested, unless otherwise provided in the Award Certificate.

(c) *Rights as a Stockholder.* A grantee shall have the rights as a stockholder only as to shares of Stock acquired by the grantee upon settlement of Restricted Stock Units; provided, however, that the grantee may be credited with Dividend Equivalent Rights with respect to the stock units underlying his Restricted Stock Units, subject to the provisions of Section 11 and such terms and conditions as the Administrator may determine.

(d) *Termination.* Except as may otherwise be provided by the Administrator either in the Award Certificate or, subject to Section 18 below, in writing after the Award is issued, a grantee's right in all Restricted Stock Units that have not vested shall automatically terminate upon the grantee's termination of employment (or cessation of service relationship) with the Company and its Subsidiaries for any reason.

SECTION 9. *UNRESTRICTED STOCK AWARDS*

Grant or Sale of Unrestricted Stock. The Administrator may grant (or sell at par value or such higher purchase price determined by the Administrator) an Unrestricted Stock Award under the Plan. An Unrestricted Stock Award is an Award pursuant to which the grantee may receive shares of Stock free of any restrictions under the Plan. Unrestricted Stock Awards may be granted in respect of past services or other valid consideration, or in lieu of cash compensation due to such grantee.

SECTION 10. *CASH-BASED AWARDS*

Grant of Cash-Based Awards. The Administrator may grant Cash-Based Awards under the Plan. A Cash-Based Award is an Award that entitles the grantee to a payment in cash upon the attainment of specified Performance Goals. The Administrator shall determine the maximum duration of the Cash-Based Award, the amount of cash to which the Cash-Based Award pertains, the conditions upon which the Cash-Based Award shall become vested or payable, and such other provisions as the Administrator shall determine. Each Cash-Based Award shall specify a cash-denominated payment amount, formula or payment ranges as determined by the Administrator. Payment, if any, with respect to a Cash-Based Award shall be made in accordance with the terms of the Award and may be made in cash.

SECTION 11. *PERFORMANCE SHARE AWARDS*

(a) *Nature of Performance Share Awards.* The Administrator may grant Performance Share Awards under the Plan. A Performance Share Award is an Award entitling the grantee to receive shares of Stock upon the attainment of performance goals. The Administrator shall determine whether and to whom Performance Share Awards shall be granted, the performance goals, the periods during which performance is to be measured, which may not be less than one year except in the case of a Sale Event, and such other limitations and conditions as the Administrator shall determine.

(b) *Rights as a Stockholder.* A grantee receiving a Performance Share Award shall have the rights of a stockholder only as to shares of Stock actually received by the grantee under the Plan and not with respect to shares subject to the Award but not actually received by the grantee. A grantee shall be entitled to receive shares of Stock under a Performance Share Award only upon satisfaction of all conditions specified in the Performance Share Award Certificate (or in a performance plan adopted by the Administrator).

(c) *Termination.* Except as may otherwise be provided by the Administrator either in the Award agreement or, subject to Section 18 below, in writing after the Award is issued, a grantee's rights in all Performance Share Awards shall automatically terminate upon the grantee's termination of employment (or cessation of service relationship) with the Company and its Subsidiaries for any reason.

SECTION 12. *PERFORMANCE-BASED AWARDS TO COVERED EMPLOYEES*

(a) *Performance-Based Awards.* The Administrator may grant one or more Performance-Based Awards in the form of a Restricted Stock Award, Restricted Stock Units, Performance Share Awards or Cash-Based Award payable upon the attainment of Performance Goals that are established by the Administrator and relate to one or more of the Performance Criteria, in each case on a specified date or dates or over any period or periods determined by the Administrator. The Administrator shall define in an objective fashion the manner of calculating the Performance Criteria it selects to use for any Performance Cycle. Depending on the Performance Criteria used to establish such Performance Goals, the Performance Goals may be expressed in terms of overall Company performance or the performance of a division, business unit, or an individual. Each Performance-Based Award shall comply with the provisions set forth below.

(b) *Grant of Performance-Based Awards.* With respect to each Performance-Based Award granted to a Covered Employee, the Administrator shall select, within the first 90 days of a Performance Cycle (or, if shorter, within the maximum period allowed under Section 162(m) of the Code) the Performance Criteria for such grant, and the Performance Goals with respect to each Performance Criterion (including a threshold level of performance below which no amount will become payable with respect to such Award). Each Performance-Based Award will specify the amount payable, or the formula for determining the amount payable, upon achievement of the various applicable performance targets. The Performance Criteria established by the Administrator may be (but need not be) different for each Performance Cycle and different Performance Goals may be applicable to Performance-Based Awards to different Covered Employees.

(c) *Payment of Performance-Based Awards.* Following the completion of a Performance Cycle, the Administrator shall meet to review and certify in writing whether, and to what extent, the Performance Goals for the Performance Cycle have been achieved and, if so, to also calculate and certify in writing the amount of the Performance-Based Awards earned for the Performance Cycle. The Administrator shall then determine the actual size of each Covered Employee's Performance-Based Award.

(d) *Maximum Award Payable.* The maximum Performance-Based Award payable to any one Covered Employee under the Plan for a Performance Cycle is 11,500,000 shares of Stock (subject to adjustment as provided in Section 3(c) hereof) or $5,000,000 in the case of a Performance-Based Award that is a Cash-Based Award.

SECTION 13. *DIVIDEND EQUIVALENT RIGHTS*

(a) *Dividend Equivalent Rights.* The Administrator may grant Dividend Equivalent Rights under the Plan. A Dividend Equivalent Right is an Award entitling the grantee to receive credits based on cash dividends that would have been paid on the shares of Stock specified in the Dividend Equivalent Right (or other Award to which it relates) if such shares had been issued to the grantee. A Dividend Equivalent Right may be granted hereunder to any grantee as a component of an award of Restricted Stock Units or Performance Share Award or as a freestanding award. The terms and conditions of

Dividend Equivalent Rights shall be specified in the Award Certificate. Dividend equivalents credited to the holder of a Dividend Equivalent Right may be paid currently or may be deemed to be reinvested in additional shares of Stock, which may thereafter accrue additional equivalents. Any such reinvestment shall be at Fair Market Value on the date of reinvestment or such other price as may then apply under a dividend reinvestment plan sponsored by the Company, if any. Dividend Equivalent Rights may be settled in cash or shares of Stock or a combination thereof, in a single installment or installments. A Dividend Equivalent Right granted as a component of an Award of Restricted Stock Units or Performance Share Award shall provide that such Dividend Equivalent Right shall be settled only upon settlement or payment of, or lapse of restrictions on, such other Award, and that such Dividend Equivalent Right shall expire or be forfeited or annulled under the same conditions as such other Award.

(b) *Termination.* Except as may otherwise be provided by the Administrator either in the Award Certificate or, subject to Section 18 below, in writing after the Award is issued, a grantee's rights in all Dividend Equivalent Rights shall automatically terminate upon the grantee's termination of employment (or cessation of service relationship) with the Company and its Subsidiaries for any reason.

SECTION 14. *TRANSFERABILITY OF AWARDS*

(a) *Transferability.* Except as provided in Section 14(b) below, during a grantee's lifetime, his or her Awards shall be exercisable only by the grantee, or by the grantee's legal representative or guardian in the event of the grantee's incapacity. No Awards shall be sold, assigned, transferred or otherwise encumbered or disposed of by a grantee other than by will or by the laws of descent and distribution or pursuant to a domestic relations order. No Awards shall be subject, in whole or in part, to attachment, execution, or levy of any kind, and any purported transfer in violation hereof shall be null and void.

(b) *Administrator Action.* Notwithstanding Section 14(a), the Administrator, in its discretion, may provide either in the Award Certificate regarding a given Award or by subsequent written approval that the grantee (who is an employee or director) may transfer his or her Non-Qualified Stock Options to his or her immediate family members, to trusts for the benefit of such family members, or to partnerships in which such family members are the only partners, provided that the transferee agrees in writing with the Company to be bound by all of the terms and conditions of this Plan and the applicable Award. In no event may an Award be transferred by a grantee for value.

(c) *Family Member.* For purposes of Section 14(b), "family member" shall mean a grantee's child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, any person sharing the grantee's household (other than a tenant of the grantee), a trust in which these persons (or the grantee) have more than 50 percent of the beneficial interest, a foundation in which these persons (or the grantee) control the management of assets, and any other entity in which these persons (or the grantee) own more than 50 percent of the voting interests.

(d) *Designation of Beneficiary.* To the extent permitted by the Company, each grantee to whom an Award has been made under the Plan may designate a beneficiary or beneficiaries to exercise any Award or receive any payment under any Award payable on or after the grantee's death. Any such designation shall be on a form provided for that purpose by the Administrator and shall not be effective until received by the Administrator. If no beneficiary has been designated by a deceased grantee, or if the designated beneficiaries have predeceased the grantee, the beneficiary shall be the grantee's estate.

SECTION 15. *TAX WITHHOLDING*

(a) *Payment by Grantee.* Each grantee shall, no later than the date as of which the value of an Award or of any Stock or other amounts received thereunder first becomes includable in the gross income of the grantee for Federal income tax purposes, pay to the Company, or make arrangements satisfactory to the Administrator regarding payment of, any Federal, state, or local taxes of any kind required by law to be withheld by the Company with respect to such income. The Company and its Subsidiaries shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the grantee and/or to direct that the proceeds from a sale of Stock on behalf of a grantee be paid over to the Company to satisfy any such tax withholding obligations. The Company's obligation to deliver evidence of book entry (or stock certificates) to any grantee is subject to and conditioned on tax withholding obligations being satisfied by the grantee.

(b) *Payment in Stock.* Subject to approval by the Administrator, a grantee may elect to have the Company's minimum required tax withholding obligation satisfied, in whole or in part, by authorizing the Company to withhold from shares of Stock to be issued pursuant to any Award a number of shares with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due. The Administrator may also require Awards to be subject to mandatory share withholding up to the required withholding amount. For purposes of share withholding, the Fair Market Value of withheld shares shall be determined in the same manner as the value of Stock includible in income of the Participants.

SECTION 16. *SECTION 409A AWARDS*

To the extent that any Award is determined to constitute "nonqualified deferred compensation" within the meaning of Section 409A (a "409A Award"), the Award shall be subject to such additional rules and requirements as specified by the Administrator from time to time in order to comply with Section 409A. In this regard, if any amount under a 409A Award is payable upon a "separation from service" (within the meaning of Section 409A) to a grantee who is then considered a "specified employee" (within the meaning of Section 409A), then no such payment shall be made prior to the date that is the earlier of (i) six months and one day after the grantee's separation from service, or (ii) the grantee's death, but only to the extent such delay is necessary to prevent such payment from being subject to interest, penalties and/or additional tax imposed pursuant to Section 409A. Further, the settlement of any such Award may not be accelerated except to the extent permitted by Section 409A.

SECTION 17. *TERMINATION OF EMPLOYMENT, TRANSFER, LEAVE OF ABSENCE, ETC.*

(a) *Termination of Employment.* If the grantee's employer ceases to be a Subsidiary, the grantee shall be deemed to have terminated employment for purposes of the Plan.

(b) For purposes of the Plan, the following events shall not be deemed a termination of employment:

(i) a transfer to the employment of the Company from a Subsidiary or from the Company to a Subsidiary, or from one Subsidiary to another; or

(ii) an approved leave of absence for military service or sickness, or for any other purpose approved by the Company, if the employee's right to re-employment is guaranteed either by a statute or by contract or under the policy pursuant to which the leave of absence was granted or if the Administrator otherwise so provides in writing.

SECTION 18. *AMENDMENTS AND TERMINATION*

The Board may, at any time, amend or discontinue the Plan and the Administrator may, at any time, amend or cancel any outstanding Award for the purpose of satisfying changes in law or for any other lawful purpose, but no such action shall adversely affect rights under any outstanding Award without the holder's consent. The Administrator is specifically authorized to exercise its discretion to reduce the exercise price of outstanding Stock Options or Stock Appreciation Rights or effect the repricing of such Awards through cancellation and re-grants. To the extent required under the rules of any securities exchange or market system on which the Stock is listed, to the extent determined by the

Administrator to be required by the Code to ensure that Incentive Stock Options granted under the Plan are qualified under Section 422 of the Code, or to ensure that compensation earned under Awards qualifies as performance-based compensation under Section 162(m) of the Code, Plan amendments shall be subject to approval by the Company stockholders entitled to vote at a meeting of stockholders. Nothing in this Section 18 shall limit the Administrator's authority to take any action permitted pursuant to Section 3(c) or 3(d).

SECTION 19. *STATUS OF PLAN*

With respect to the portion of any Award that has not been exercised and any payments in cash, Stock or other consideration not received by a grantee, a grantee shall have no rights greater than those of a general creditor of the Company unless the Administrator shall otherwise expressly determine in connection with any Award or Awards. In its sole discretion, the Administrator may authorize the creation of trusts or other arrangements to meet the Company's obligations to deliver Stock or make payments with respect to Awards hereunder, provided that the existence of such trusts or other arrangements is consistent with the foregoing sentence.

SECTION 20. *GENERAL PROVISIONS*

(a) *No Distribution.* The Administrator may require each person acquiring Stock pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the shares without a view to distribution thereof.

(b) *Delivery of Stock Certificates.* Stock certificates to grantees under this Plan shall be deemed delivered for all purposes when the Company or a stock transfer agent of the Company shall have mailed such certificates in the United States mail, addressed to the grantee, at the grantee's last known address on file with the Company. Uncertificated Stock shall be deemed delivered for all purposes when the Company or a Stock transfer agent of the Company shall have given to the grantee by electronic mail (with proof of receipt) or by United States mail, addressed to the grantee, at the grantee's last known address on file with the Company, notice of issuance and recorded the issuance in its records (which may include electronic "book entry" records). Notwithstanding anything herein to the contrary, the Company shall not be required to issue or deliver any certificates evidencing shares of Stock pursuant to the exercise of any Award, unless and until the Administrator has determined, with advice of counsel (to the extent the Administrator deems such advice necessary or advisable), that the issuance and delivery of such certificates is in compliance with all applicable laws, regulations of governmental authorities and, if applicable, the requirements of any exchange on which the shares of Stock are listed, quoted or traded. All Stock certificates delivered pursuant to the Plan shall be subject to any stop-transfer orders and other restrictions as the Administrator deems necessary or advisable to comply with federal, state or foreign jurisdiction, securities or other laws, rules and quotation system on which the Stock is listed, quoted or traded. The Administrator may place legends on any Stock certificate to reference restrictions applicable to the Stock. In addition to the terms and conditions provided herein, the Administrator may require that an individual make such reasonable covenants, agreements, and representations as the Administrator, in its discretion, deems necessary or advisable in order to comply with any such laws, regulations, or requirements. The Administrator shall have the right to require any individual to comply with any timing or other restrictions with respect to the settlement or exercise of any Award, including a window-period limitation, as may be imposed in the discretion of the Administrator.

(c) *Stockholder Rights.* Until Stock is deemed delivered in accordance with Section 20(b), no right to vote or receive dividends or any other rights of a stockholder will exist with respect to shares of Stock to be issued in connection with an Award, notwithstanding the exercise of a Stock Option or any other action by the grantee with respect to an Award.

(d) *Other Compensation Arrangements; No Employment Rights.* Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, including trusts, and such arrangements may be either generally applicable or applicable only in specific cases. The adoption of this Plan and the grant of Awards do not confer upon any employee any right to continued employment with the Company or any Subsidiary.

(e) *Trading Policy Restrictions.* Option exercises and other Awards under the Plan shall be subject to the Company's insider trading policies and procedures, as in effect from time to time.

(f) *Clawback Policy.* Awards under the Plan shall be subject to the Company's clawback policy, as in effect from time to time.

SECTION 21. *EFFECTIVE DATE OF PLAN*

This Plan shall become effective upon the date immediately preceding the date on which the Company's Registration Statement on Form S-1 becomes effective. No grants of Stock Options and other Awards may be made hereunder after the tenth anniversary of the Effective Date and no grants of Incentive Stock Options may be made hereunder after the tenth anniversary of the date the Plan is approved by the Board.

SECTION 22. *GOVERNING LAW*

This Plan and all Awards and actions taken thereunder shall be governed by, and construed in accordance with, the laws of the State of California, applied without regard to conflict of law principles.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2016

or

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

For the transition period from to

Commission File Number: 001-37806

Twilio Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**26-2574840** (I.R.S. Employer Identification Number)

375 Beale Street, Suite 300
San Francisco, California 94105
(Address of principal executive offices) (Zip Code)

(415) 390-2337
(Registrant's telephone number, including area code)

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

Title of each class	**(Name of each exchange on which registered)**
Class A Common Stock, par value $0.001 per share	The New York Stock Exchange

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions 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 aggregate market value of stock held by non-affiliates as of June 30, 2016, was $422.4 million based upon $36.50 per share, the closing price for such date on the New York Stock Exchange.

On January 31, 2017, the registrant had 51,571,092 shares of Class A common stock and 35,962,651 shares of Class B common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2017 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. Such Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2016.

Twilio Inc.

Annual Report on Form 10-K

For the Fiscal Year Ended December 31, 2016

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Special Note Regarding Forward-Looking Statements

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

- our future financial performance, including our revenue, cost of revenue, gross margin and operating expenses, ability to generate positive cash flow and ability to achieve and sustain profitability;
- the sufficiency of our cash and cash equivalents to meet our liquidity needs;
- anticipated technology trends, such as the use of and demand for cloud communications;
- our ability to continue to build and maintain credibility with the global software developer community;
- our ability to attract and retain customers to use our products;
- our ability to attract and retain enterprises and international organizations as customers for our products;
- our ability to form new and expand existing partnerships with independent software vendors and system integrators;
- the evolution of technology affecting our products and markets;
- our ability to introduce new products and enhance existing products;
- our ability to optimize our network service provider coverage and connectivity;
- our ability to pass on our savings associated with our platform optimization efforts to our customers;
- our ability to successfully enter into new markets and manage our international expansion;
- the attraction and retention of qualified employees and key personnel;
- our ability to effectively manage our growth and future expenses and maintain our corporate culture;
- our anticipated investments in sales and marketing and research and development;
- our ability to maintain, protect and enhance our intellectual property;
- our ability to successfully defend litigation brought against us;
- our ability to comply with modified or new laws and regulations applying to our business; and
- the increased expenses associated with being a public company.

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

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

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

PART I

Item 1. *Business*

Overview

Software developers are reinventing nearly every aspect of business today. Yet as developers, we repeatedly encountered an area where we could not innovate—communications. Because communication is a fundamental human activity and vital to building great businesses, we wanted to incorporate communications into our software applications, but the barriers to innovation were too high. Twilio was started to solve this problem.

We believe the future of communications will be written in software, by the developers of the world—our customers. By empowering them, our mission is to fuel the future of communications.

Cloud platforms are a new category of software that enable developers to build and manage applications without the complexity of creating and maintaining the underlying infrastructure. These platforms have arisen to enable a fast pace of innovation across a range of categories, such as computing and storage. We are the leader in the Cloud Communications Platform category. We enable developers to build, scale and operate real-time communications within software applications.

Our developer-first platform approach consists of three things: our Programmable Communications Cloud, Super Network and Business Model for Innovators. Our Programmable Communications Cloud software enables developers to embed voice, messaging, video and authentication capabilities into their applications via our simple-to-use Application Programming Interfaces, or APIs. We do not aim to provide complete business solutions, rather our Programmable Communications Cloud offers flexible building blocks that enable our customers to build what they need. The Super Network is our software layer that allows our customers' software to communicate with connected devices globally. It interconnects with communications networks around the world and continually analyzes data to optimize the quality and cost of communications that flow through our platform. Our Business Model for Innovators empowers developers by reducing friction and upfront costs, encouraging experimentation and enabling developers to grow as customers as their ideas succeed.

We had 36,606 Active Customer Accounts as of December 31, 2016, representing organizations big and small, old and young, across nearly every industry, with one thing in common: they are competing by using the power of software to build differentiation through communications. With our platform, our customers are disrupting existing industries and creating new ones. For example, our customers have reinvented hired transportation by connecting riders and drivers, with communications as a critical part of each transaction. Our customers' software applications use our platform to notify a diner when a table is ready, a traveler when a flight is delayed or a shopper when a package has shipped. The range of applications that developers build with the Twilio platform has proven to be nearly limitless.

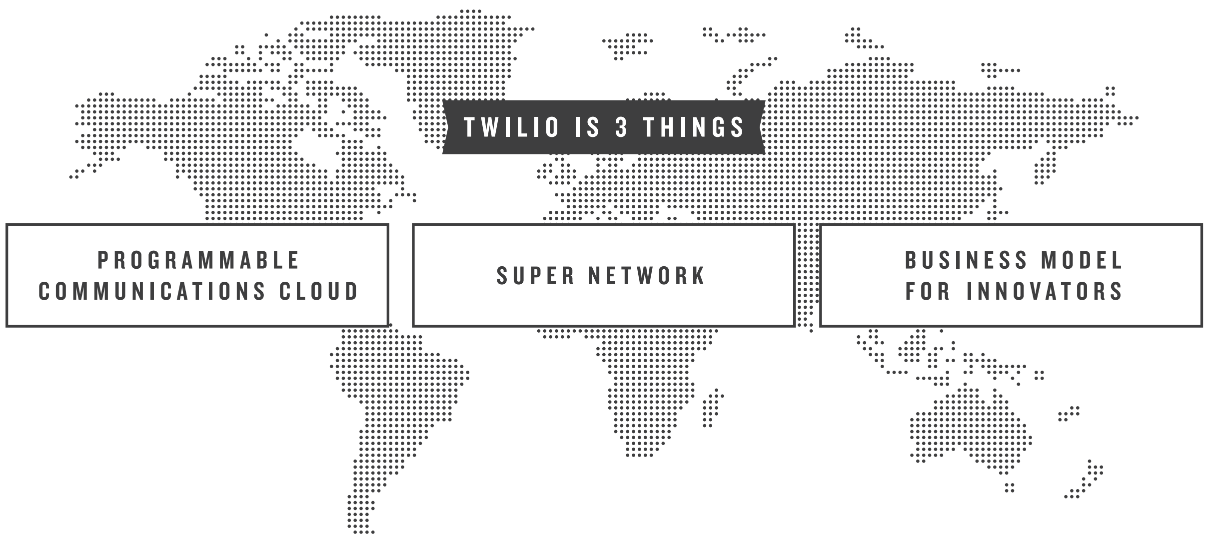
Our goal is for Twilio to be in the toolkit of every software developer in the world. Because big ideas often start small, we encourage developers to experiment and iterate on our platform. We love when developers explore what they can do with Twilio, because one day they may have a business problem that they will use our products to solve.

As our customers succeed, we share in their success through our usage-based revenue model. Our revenue grows as customers increase their usage of a product, extend their usage of a product to new applications or adopt a new product. We believe the most useful indicator of this increased activity from our existing customer accounts is our Dollar-Based Net Expansion Rate, which was 161% and 155% for the years ended December 31, 2016 and 2015, respectively. See the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Business Metrics—Dollar-Based Net Expansion Rate."

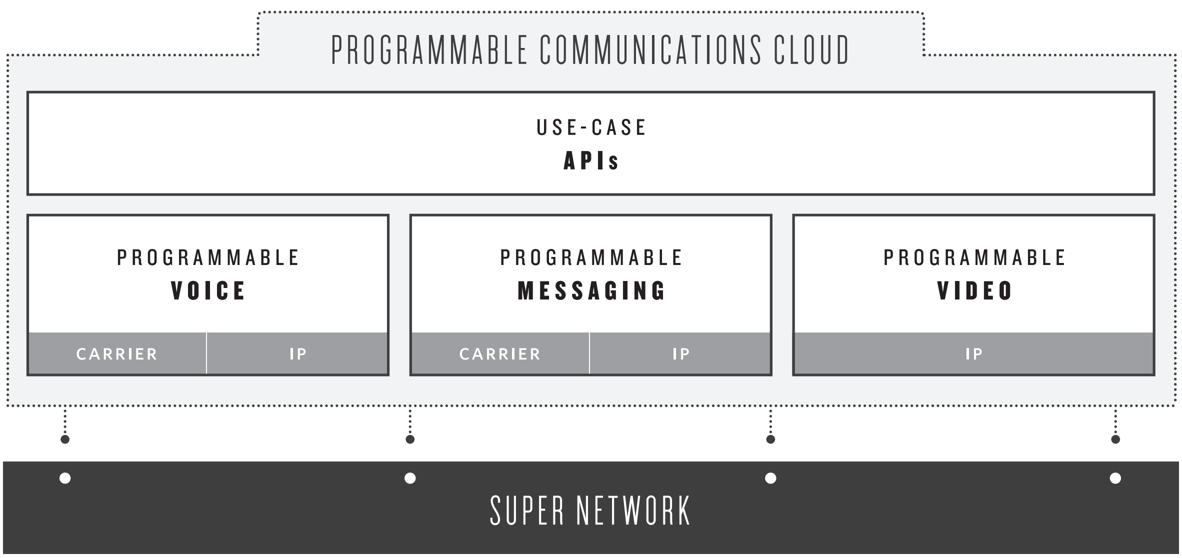
Our Platform Approach

Twilio's mission is to fuel the future of communications. We enable developers to build, scale and operate real-time communications within software applications.

We believe every application can be enhanced through the power of communication. Over time, we believe that all of our communications that do not occur in person will be integrated into software applications. Our platform approach enables developers to build this future.



Our Programmable Communications Cloud, Super Network and Business Model for Innovators work together to create value for our customers and a competitive advantage for our company.



Our Programmable Communications Cloud

Our Programmable Communications Cloud provides a range of products that enables developers to embed voice, messaging, video and authentication capabilities into their applications. Our easy-to-use developer APIs provide a programmatic channel to access our software. Developers can utilize our intuitive programming language, TwiML, to specify application functions such as <Dial>, <Record> and <Play>, leveraging our software to manage the complexity of executing the specified functions.

Our Programmable Communications Cloud consists of software products that can be used individually or in combination to build rich contextual communications within applications. We do not aim to provide complete business solutions, rather our Programmable Communications Cloud offers flexible building blocks that enable our customers to build what they need. Our Programmable Communications Cloud includes:

- **Programmable Voice.** Our Programmable Voice software products allow developers to build solutions to make and receive phone calls globally, and incorporate advanced voice functionality such as text-to-speech, conferencing, recording and transcription. Programmable Voice, through our advanced call control software, allows developers to build customized applications that address use cases such as contact centers, call tracking and analytics solutions and anonymized communications.
- **Programmable Messaging.** Our Programmable Messaging software products allow developers to build solutions to send and receive text messages globally, and incorporate advanced messaging functionality such as emoji, picture messaging and localized languages. Our customers use Programmable Messaging, through software controls, to power use cases, such as appointment reminders, delivery notifications, order confirmations and customer care.
- **Programmable Video.** Our recently introduced Programmable Video software products enable developers to build next-generation mobile and web applications with embedded video, including for use cases such as customer care, collaboration and physician consultations.
- **Use Case APIs.** While developers can build a broad range of applications on our platform, certain use cases are more common. Our Use Case APIs build upon the above products to offer more fully implemented functionality for a specific purpose, such as two-factor authentication, thereby saving developers significant time in building their applications.

Using our software, developers, including our Solution Partner customers, are able to incorporate communications into applications that span a range of industries and functionalities.

Common Use Cases

- **Anonymous Communications.** Enabling users to have a trusted means of communications where they prefer not to share private information like their telephone number. Examples include conversations between drivers and riders or texting after meeting through a dating website.
- **Alerts and Notifications.** Alerting a user that an event has occurred, such as when a table is ready, a flight is delayed or a package is shipped.
- **Contextual Support.** Improving customer care with voice, messaging and video capabilities that integrate with other systems to add context, such as a caller's support ticket history or present location.
- **Call Tracking.** Using phone numbers to provide detailed analytics on phone calls to measure the effectiveness of marketing campaigns or lead generation activities in a manner similar to how web analytics track and measure online activity.
- **Mobile Marketing.** Integrating messaging with marketing automation technology, allowing organizations to deliver targeted and timely contextualized communications to consumers.
- **User Security.** Verifying user identity through two-factor authentication prior to log-in or validating transactions within an application's workflow. This adds an additional layer of security to any application.

- **Twilio For Good.** Partnering with nonprofit organizations through Twilio.org, to use the power of communications to help solve social challenges, such as an SMS hotline to fight human trafficking, an emergency volunteer dispatch system and appointment reminders for medical visits in developing nations.

Uncommon Use Cases

Our developers continually impress us with what they are able to build using our platform. In addition to our common use cases, we have a number of uncommon use cases that demonstrate the versatility of our platform and the creativity of our developer community.

- **Magic Routines.** Doug McKenzie is making magic new again by using his audience's own phones to perform classic street illusions. Audience members select a card, put it in their pocket without looking at it, and then text Doug's Twilio app which tells them their card correctly, every single time.
- **Robocall Firewall.** Aaron Foss turned a weekend project with Twilio's products into a service that won the FTC's first Robocall Challenge and then blocked over 15.1 million robocalls in 2014. He anonymized and printed out each call blocked in 2014, and brought the reams of paper with him to the FCC to show the extent of robocalling.
- **Music Fan Engagement.** Grammy-winning musicians have utilized Twilio's platform to interact with fans by sharing lyrics, new releases and insights via voice recordings, text messages and videos.
- **Parkinson's Voice Initiative.** A team of mathematicians and clinicians have devised a system using Twilio that allows a person to call a number that records his or her voice to assist in identifying individuals that may have Parkinson's disease, potentially enabling early detection for those affected.

Our Super Network

Our Programmable Communications Cloud is built on top of our global software layer, which we call our Super Network. Our Super Network interfaces intelligently with communications networks globally. We do not own any physical network infrastructure. We use software to build a high performance network that optimizes performance for our customers. Our Super Network breaks down the geopolitical boundaries and scale limitations of the physical network infrastructure.

Our platform has global reach, consisting of 26 cloud data centers in eight regions. We interconnect those cloud data centers with network service providers around the world, giving us redundant means to reach users globally. These distributed data centers also allow our software to run in close proximity to end users and network service providers to minimize latency. Our Super Network interconnects with network service providers around the world, including carriers, mobile network operators and real-time data information service providers. When our customers use our products, the communications are transmitted through one or more of the network service providers that are connected to our Super Network. Our proprietary technology selects which network service providers to use and routes the communications in order to optimize the quality and cost of the communications across our product offerings. In addition, a very small number of customers have chosen to use certain Programmable Voice products to build one or more applications that augment their existing communications infrastructure and operate through their own network service providers. We are continually adding new network service provider relationships as we scale, and we are not dependent upon any single network service provider to conduct our business. We are continually adding new network service provider relationships as we scale.

Our Super Network analyzes massive volumes of data from end users, their applications and the communications networks to optimize our customers' communications for quality and cost. With every new message and call, our Super Network becomes more robust, intelligent and efficient, enabling us to provide better performance at lower prices to our customers. Our Super Network's sophistication becomes increasingly difficult for others to replicate over time.

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Our Business Model for Innovators

Our goal is to include Twilio in the toolkit of every developer in the world. Because big ideas often start small, developers need the freedom and tools to experiment and iterate on their ideas.

In order to empower developers to experiment, our developer-first business model is low friction, eliminating the upfront costs, time and complexity that typically hinder innovation. Developers can begin building with a free trial. They have access to self-service documentation and free customer support to guide them through the process. Once developers determine that our software meets their needs, they can flexibly increase consumption and pay based on usage. In short, we acquire developers like consumers and enable them to spend like enterprises.

Our Growth Strategy

We are the leader in the Cloud Communications Platform category based on revenue, market share and reputation, and intend to continue to set the pace for innovation. We will continue to invest aggressively in our platform approach, which prioritizes increasing our reach and scale. We intend to pursue the following growth strategies:

- **Continue Significant Investment in our Technology Platform.** We will continue to invest in building new software capabilities and extending our platform to bring the power of contextual communications to a broader range of applications, geographies and customers. We have a substantial research and development team, comprising 53% of our headcount as of December 31, 2016. Additionally, we were recently awarded an ISO 27001 certification, a widely recognized and internationally accepted set of information security standards that identifies requirements for a comprehensive Information Security Management System, and defines how organizations should manage and handle information in a secure manner, including appropriate security controls.
- **Grow Our Developer Community and Accelerate Adoption.** We will continue to enhance our relationships with developers globally and seek to increase the number of developers on our platform. As of December 31, 2016, we had 36,606 Active Customer Accounts and well over one million registered developer accounts registered on our platform. In addition to adding new developers, we believe there is significant opportunity for revenue growth from developers who have already registered accounts with us but who have not yet built their software applications with us, or whose applications are in their infancy and will grow with Twilio into an Active Customer Account.
- **Increase Our International Presence.** Our platform operates in over 180 countries today, making it as simple to communicate from São Paulo as it is from San Francisco. Customers outside the United States are increasingly adopting our platform, and for the year ended December 31, 2016, revenue from international customer accounts accounted for 16% of our

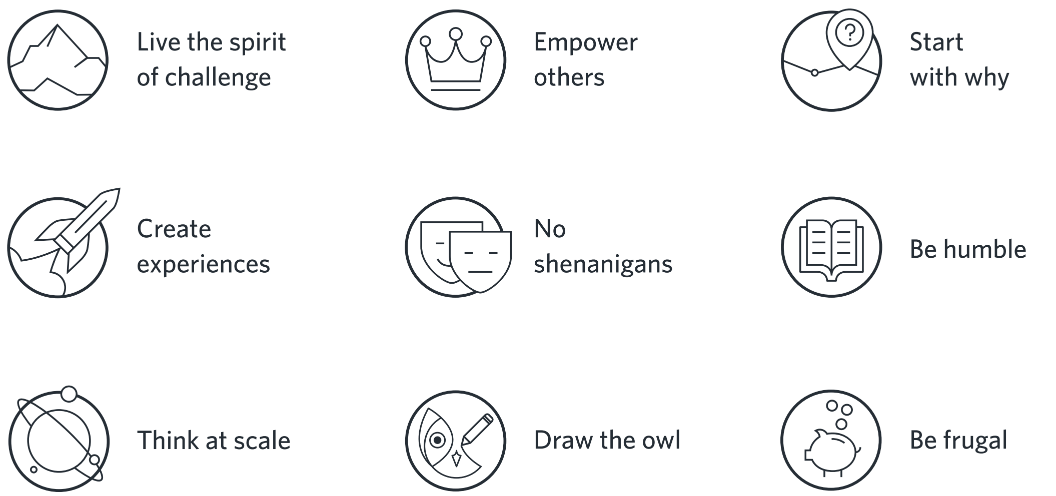
total revenue. We are investing to meet the requirements of a broader range of global developers and enterprises. We plan to grow internationally by expanding our operations outside of the United States and collaborating with international strategic partners.

- **Expand Focus on Enterprises.** We plan to drive greater awareness and adoption of Twilio from enterprises across industries. We intend to increase our investment in sales and marketing to meet evolving enterprise needs globally, in addition to extending our enterprise-focused use cases and platform capabilities, including our recently-launched Twilio Enterprise Plan. Additionally, we believe there is significant opportunity to expand our relationships with existing enterprise customers.
- **Further Enable Solution Partner Customers.** We have relationships with a number of Solution Partner customers that embed our products in the solutions that they sell to other businesses. We intend to expand our relationships with existing Solution Partner customers and to add new Solution Partner customers. We plan to invest in a range of initiatives to encourage increased collaboration with, and generation of revenue from, Solution Partner customers.
- **Expand ISV Development Platform and SI Partnerships.** We have started developing relationships with independent software vendor (ISV) development platforms and system integrators, or SIs. ISV development platforms integrate Twilio to extend the functionality of their platforms, which expands our reach to a broader range of customers. SIs provide consulting and development services for organizations that have limited software development expertise to build our platform into their software applications. We generate revenue through our relationships with ISV development platforms and SIs when our products are used within the software or applications into which they are integrated by ISV development platforms and SIs. We do not share usage-based revenue with ISV development platforms or SIs, nor do we pay them to include our products in their offerings. We intend to continue to invest in and develop the ecosystem for our solutions in partnership with ISV development platforms and SIs to accelerate awareness and adoption of our platform.
- **Selectively Pursue Acquisitions and Strategic Investments.** We may selectively pursue acquisitions and strategic investments in businesses and technologies that strengthen our platform. In February 2015, we acquired Authy, a leading provider of authentication-as-a-service for large-scale applications. With the integration of Authy, we now provide a cloud-based API to seamlessly embed two-factor authentication and phone verification into any application. In November 2016, we acquired the proprietary WebRTC media processing technologies built by the team behind the Kurento Open Source Project. The Kurento Media Server capabilities, including large group communications, transcoding, recording and advanced media processing, has been integrated into Twilio Programmable Video.

Our Values and Leadership Principles

Our core values, called our “Nine Values,” are at the center of everything that we do. As a company built by developers for developers, these values guide us to work in a way that exemplifies many attributes of the developer ethos. These are not mere words on the wall. We introduce these values to new hires upon joining our company, and we continually weave these values into everything we do. Our values provide a guide for the way our teams work, communicate, set goals and make decisions.

TWILIO'S NINE VALUES



We believe leadership is a behavior, not a position. In addition to our values, we have articulated the leadership traits we all strive to achieve. Our leadership principles apply to every Twilion, not just managers or executives, and provide a personal growth path for employees in their journeys to become better leaders.

TWILIO'S LEADERSHIP PRINCIPLES

The combination of our Nine Values and our leadership principles has created a blueprint for how Twilions worldwide interact with customers and with each other, and for how they respond to new challenges and opportunities.

Twilio.org

We believe we can create greater social good through better communications. Through Twilio.org, which is a part of our company and not a separate legal entity, we donate and discount our products to nonprofits, who use our products to engage their audience, expand their reach and focus on making a meaningful change in the world. Twilio.org's mission is to send a billion messages for good. To that end, we have reserved 780,397 shares of our Class A common stock to fund and support operations of Twilio.org, which represented 1% of our outstanding capital stock on the date it was approved by our board of directors. In our follow-on public offering, we sold 100,000 shares of Class A common stock to fund and support the operations of Twilio.org, and the number of remaining reserved shares was reduced accordingly to 680,397.

Our Products

Our Programmable Communications Cloud consists of software for voice, messaging, video and authentication that empowers developers to build applications that can communicate with connected devices globally. We do not aim to provide complete business solutions, rather our Programmable Communications Cloud offers flexible building blocks that enable our customers to build what they need.

Programmable Voice

Our Programmable Voice software products allow developers to build solutions to make and receive phone calls globally, and incorporate advanced voice functionality such as text-to-speech, conferencing, recording and transcription. Programmable Voice, through our advanced call control software, allows developers to build customized applications that address use cases such as contact centers, call tracking and analytics solutions and anonymized communications. Our voice software works over both the traditional public switch telephone network, as Twilio Voice, and over Internet Protocol, as Twilio Client. Programmable Voice includes:

- **Twilio Voice.** Initiate, receive and manage phone calls globally.
- **Twilio Client Web.** Initiate, receive and control calls between web browsers and landlines or mobile phones.
- **Twilio Client Mobile.** Embed IP voice calling into native Apple iOS and Google Android apps.
- **Call Recording.** Securely record, store, transcribe and retrieve voice calls in the cloud.
- **Global Conference.** Integrate audio conferencing that intelligently routes calls through cloud data centers in the closest of six geographic regions to reduce latency. Scales from Basic, for a limited number of participants, to Epic, for an unlimited number of participants.
- **Instant Phone Number Provisioning.** Acquire local, national, mobile and toll-free phone numbers on demand in over 50 countries and connect them into the customers' applications.
- **Elastic SIP Trunking.** Connect legacy applications over IP infrastructure to our Super Network with globally-available phone numbers and pay-as-you-go pricing.
- **Interconnect.** Connect privately to Twilio to enable enterprise grade security and quality of service for Twilio Voice and Elastic SIP Trunking.

We charge on a per-minute or per-phone-number basis for most of our Programmable Voice products.

Programmable Messaging

Our Programmable Messaging software products allow developers to build solutions to send and receive text messages globally, and incorporate advanced messaging functionality such as emoji, picture messaging and localized languages. Our customers use Programmable Messaging, through software controls, to power use cases, such as appointment reminders, delivery notifications, order confirmations and customer care. We offer messaging over long-code numbers, short-code numbers, messaging apps such as Facebook Messenger and over IP through our Android, iOS and JavaScript software development kits. Programmable Messaging includes:

- **Twilio SMS.** Programmatically send, receive and track SMS messages around the world, supporting localized languages in nearly every market.
- **Twilio MMS.** Exchange picture messages and more over U.S. and Canadian phone numbers from customer applications with built-in image transcoding and media storage.
- **Copilot.** Intelligent software layer that handles tasks, such as dynamically sending messages from a phone number that best matches the geographic location of the recipient based on a global pool of numbers.
- **Programmable Chat.** Deploy contextual, in-app messaging at global scale.
- **Short Codes.** A five to seven digit phone number in the United States, Canada and the United Kingdom used to send and receive a high-volume of messages per second.
- **Messaging App Integration.** Programmatically send, receive and track messages to messaging apps such as Facebook Messenger and Viber globally.
- **Toll-Free SMS.** Send and receive text messages with the same toll-free number used for voice calls in the United States and Canada.
- **Instant Phone Number Provisioning.** Acquire local, national, mobile and toll-free phone numbers on demand in over 50 countries and connect them into the customers' applications.

We charge on a per-message or per-phone-number basis for most of our Programmable Messaging products.

Programmable Video

Our recently introduced Programmable Video software products enable developers to build next-generation mobile and web applications with embedded video, including for use cases such as customer care, collaboration and physician consultations. Programmable Video includes:

- **Twilio Video.** Create rich, multi-party video experiences in applications powered by a global cloud infrastructure for peer-to-peer calls.
- **Network Traversal.** Provide low-latency, cost-effective and reliable Session Traversal Utilities for NAT (STUN) and Traversal Using Relay for NAT (TURN) capabilities distributed across five continents. This functionality allows developers to initiate peer-to-peer video session across any internet-connected device globally.

In November 2016, we acquired the proprietary WebRTC media processing technologies built by the team behind the Kurento Open Source Project. The Kurento Media Server capabilities, including large group communications, transcoding, recording and advanced media processing, has been integrated into Twilio Programmable Video.

We charge on a per-connected-endpoint, per-active-endpoint and per-gigabit basis for our Programmable Video products.

Use Case APIs

While developers can build a broad range of applications on our platform, certain use cases are more common. Our Use Case APIs build upon the above products to offer more fully implemented functionality for a specific purpose, such as two-factor authentication, thereby saving developers significant time in building their applications. The following are common uses cases for our Use Case APIs:

Programmable Authentication

Identity and communications are closely linked, and this is a critical business need for our customers. Using our two-factor authentication APIs, developers can add an extra layer of security to their applications with second-factor passwords sent to a user's phone via SMS, voice or push notifications. Our Programmable Authentication products include:

- **Authy SoftToken.** Users authenticate with a dynamic seven-digit code available from the Authy app on their registered mobile phone, desktop or Apple Watch.
- **Authy OneTouch.** Users receive push notifications to approve or deny an authentication request with a simple "yes" or "no" response on their registered smartphone.
- **Authy OneCode.** Users authenticate with a unique code delivered to their registered phone number via SMS or voice automated phone call.

TaskRouter

A software product that enables intelligent multi-task routing in contact centers to optimize workflows, such as routing a call to an available agent. A task can be a phone call, SMS, lead, support ticket or even machine learning from a connected device.

We charge on a per-use basis for most of our Use Case APIs.

Add-on Marketplace

Launched in May 2016, our Add-on Marketplace allows third parties to integrate their capabilities directly into our Cloud Communications Platform. This capability allows us to further leverage our community to provide new and differentiated functionality for our customers, while also opening up a new market for our partners.

We share in the revenue generated by our partners for their solutions sold through our Add-on Marketplace.

Our Employees

As of December 31, 2016, we had a total 730 employees, including 125 employees located outside the United States. None of our employees are represented by a labor union or covered by a collective bargaining agreement. We have not experienced any work stoppages, and we consider our relations with our employees to be good.

Research and Development

Our research and development efforts are focused on ensuring that our platform is resilient and available to our customers at any time, and on enhancing our existing products and developing new products.

Our research and development organization is built around small development teams. Our small development teams foster greater agility, which enables us to develop new, innovative products and make rapid changes to our infrastructure that increase resiliency and operational efficiency. Our development teams designed, built and continue to expand our Programmable Communications Cloud, which enables developers to embed voice, messaging, video and authentication capabilities into their applications. Our development teams have also designed, built and continue to expand the software infrastructure that we have deployed to create our Super Network.

As of December 31, 2016, we had 390 employees in our research and development organization. We intend to continue to invest in our research and development capabilities to extend our platform and bring the power of contextual communications to a broader range of applications, geographies and customers. Our research and development expenses for the years ended December 31, 2016, 2015 and 2014 were $77.9 million, $42.6 million and $21.8 million, respectively.

Sales and Marketing

Our sales and marketing teams work together closely to drive awareness and adoption of our platform, accelerate customer acquisition and generate revenue from customers.

Our go-to-market model is primarily focused on reaching and serving the needs of developers. We are a pioneer of developer evangelism and education and have cultivated a large global developer community. We reach developers through community events and conferences, including our SIGNAL developer conference, to demonstrate how every developer can create differentiated applications incorporating communications using our products.

Once developers are introduced to our platform, we provide them with a low-friction trial experience. By accessing our easy-to-configure APIs, extensive self-service documentation and customer support team, developers can build our products into their applications and then test such applications during an initial free trial period that we provide. Once they have decided to use our products beyond the initial free trial period, customers provide their credit card information and only pay for the actual usage of our products. Our self-serve pricing matrix is publicly available and it allows for customers to receive automatic tiered discounts as their usage of our products increases. As customers' use of our products grows larger, some enter into negotiated contracts with terms that dictate pricing, and typically include some level of minimum revenue commitments. Historically, we have acquired the substantial majority of our customers through this self-service model. As customers expand their usage of our platform, our relationships with them often evolve to include business leaders within their organizations. Once our customers reach a certain spending level with us, we support them with account managers or customer success advocates to ensure their satisfaction and expand their usage of our products.

When potential customers do not have the available developer resources to build their own applications, we refer them to our Solution Partners, who embed our products in their solutions that they sell to other businesses, such as contact centers and sales force and marketing automation.

We also supplement our self-service model with a sales effort aimed at engaging larger potential customers, strategic leads and existing customers through an enterprise sales approach. We have supplemented this sales effort with a new product launch, our Twilio Enterprise Plan, which provides new capabilities for advanced security, access management and granular administration. Our sales organization targets technical leaders and business leaders who are seeking to leverage software to drive competitive differentiation. As we educate these leaders on the benefits of developing applications incorporating our products to differentiate their business, they often consult with their developers regarding implementation. We believe that developers are often advocates for our products as a result of our developer-focused approach. Our sales organization includes sales development, inside sales, field sales and sales engineering personnel.

As of December 31, 2016, we had 240 employees in our sales and marketing organization.

Customer Support

We have designed our products and platform to be self-service and require minimal customer support. To enable seamless self-service, we provide all of our users with helper libraries, comprehensive documentation, how-to's and tutorials. We supplement and enhance these tools with the participation of our engaged developer community. In addition, we provide support options to address the individualized needs of our customers. All developers get free email based support with API status notifications. Our developers also engage with the broader Twilio community to resolve certain issues.

We also offer three additional paid tiers of email and phone support with increasing levels of availability and guaranteed response times. Our highest tier personalized plan is intended for our largest customers and includes guaranteed response times that vary based on the priority of the request, a dedicated support engineer, a duty manager and quarterly status review. Our support model is global, with 24x7 coverage and support offices located in the United States, the United Kingdom, Estonia and Singapore. We currently derive an insignificant amount of revenue from fees charged for customer support.

Competition

The market for Cloud Communications Platform is rapidly evolving and increasingly competitive. We believe that the principal competitive factors in our market are:

- completeness of offering;
- credibility with developers;
- global reach;
- ease of integration and programmability;
- product features;
- platform scalability, reliability, security and performance;
- brand awareness and reputation;
- the strength of sales and marketing efforts;
- customer support; and
- the cost of deploying and using our products.

We believe that we compete favorably on the basis of the factors listed above. We believe that none of our competitors currently compete directly with us across all of our product offerings.

Our competitors fall into four primary categories:

- legacy on-premise vendors, such as Avaya and Cisco;
- regional network service providers that offer limited developer functionality on top of their own physical infrastructure;
- smaller software companies that compete with portions of our product line; and
- SaaS companies that offer prepackaged applications for a narrow set of use cases.

Some of our competitors have greater financial, technical and other resources, greater name recognition, larger sales and marketing budgets and larger intellectual property portfolios. As a result, certain of our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer requirements. In addition, some competitors may offer products or services that address one or a limited number of functions at lower prices, with greater depth than our products or geographies where we do not operate. With the introduction of new products and services and new market entrants, we expect competition to intensify in the future. Moreover, as we expand the scope of our platform, we may face additional competition.

Intellectual Property

We rely on a combination of patent, copyright, trademark and trade secret laws in the United States and other jurisdictions, as well as license agreements and other contractual protections, to protect our proprietary technology. We also rely on a number of registered and unregistered trademarks to protect our brand.

As of December 31, 2016, in the United States, we had been issued 58 patents, which expire between 2029 and 2036, and had 43 patent applications pending for examination and four pending provisional applications. As of such date, we also had six issued patents and eight patent applications pending for examination in foreign jurisdictions, all of which are related to U.S. patents and patent applications. In addition, as of December 31, 2016, we had 13 trademarks registered in the United States and 35 trademarks registered in foreign jurisdictions.

In addition, we seek to protect our intellectual property rights by implementing a policy that requires our employees and independent contractors involved in development of intellectual property on our behalf to enter into agreements acknowledging that all works or other intellectual property generated or conceived by them on our behalf are our property, and assigning to us any rights, including intellectual property rights, that they may claim or otherwise have in those works or property, to the extent allowable under applicable law.

Despite our efforts to protect our technology and proprietary rights through intellectual property rights, licenses and other contractual protections, unauthorized parties may still copy or otherwise obtain and use our software and other technology. In addition, we intend to continue to expand our international operations, and effective intellectual property, copyright, trademark and trade secret protection may not be available or may be limited in foreign countries. Any significant impairment of our intellectual property rights could harm our business or our ability to compete. Further, companies in the communications and technology industries may own large numbers of patents, copyrights and trademarks and may frequently threaten litigation, or file suit against us based on allegations of infringement or other violations of intellectual property rights. We are currently subject to, and expect to face in the future, allegations that we have infringed the intellectual property rights of third parties, including our competitors and non-practicing entities.

Regulatory

We are subject to a number of U.S. federal and state and foreign laws and regulations that involve matters central to our business. These laws and regulations may involve privacy, data protection, intellectual property, competition, consumer protection, export taxation or other subjects. Many of the laws and regulations to which we are subject are still evolving and being tested in courts and could be interpreted in ways that could harm our business. In addition, the application and interpretation of these laws and regulations often are uncertain, particularly in the new and rapidly evolving industry in which we operate. Because global laws and regulations have continued to develop and evolve rapidly, it is possible that we may not be, or may not have been, compliant with each such applicable law or regulation.

The Telephone Consumer Protection Act of 1991, or TCPA, restricts telemarketing and the use of automatic text messages without proper consent. The scope and interpretation of the laws that are or may be applicable to the delivery of text messages are continuously evolving and developing. If we do not comply with these laws or regulations or if we become liable under these laws or regulations due to the failure of our customers to comply with these laws by obtaining proper consent, we could face direct liability.

Corporate Information

Twilio Inc. was incorporated in Delaware in March 2008. Our principal executive offices are located at 375 Beale Street, Third Floor, San Francisco, California 94105, and our telephone number is (415) 390-2337. Our website address is www.twilio.com. Information contained on, or that can be accessed through, our website does not constitute part of this Annual Report on Form 10-K.

Information about Geographic Revenue

Information about geographic revenue is set forth in Note 9 of our Notes to our Consolidated Financial Statements included in Part II, Item 8, “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K.

Additional Information

The following filings are available through our investor relations website after we file them with the Securities and Exchange Commission (“SEC”): Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and our Proxy Statement for our annual meeting of stockholders. These filings are also available for download free of charge on our investor relations website. Our investor relations website is located at http://investors.twilio.com/. You may obtain copies of this information by mail from the Public Reference Section of the SEC, 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The SEC also maintains an Internet website that contains reports, proxy statements and other information about issuers, like us, that file electronically with the SEC. The address of that website is www.sec.gov.

We webcast our earnings calls and certain events we participate in or host with members of the investment community on our investor relations website. Additionally, we provide notifications of news or announcements regarding our financial performance, including SEC filings, investor events, press and earnings releases, and blogs as part of our investor relations website. Further corporate governance information, including our corporate governance guidelines and code of business conduct and ethics, is also available on our investor relations website under the heading “Corporate Governance.” The contents of our websites are not intended to be incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

Item 1A. *Risk Factors*

A description of the risks and uncertainties associated with our business is set forth below. You should carefully consider the risks and uncertainties described below, together with all of the other information in this Annual Report on Form 10-K, including the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our condensed consolidated financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K. 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, results of operations and prospects could be materially and adversely affected. In that event, the market price of our Class A common stock could decline.

Risks Related to Our Business and Our Industry

The market for our products and platform is new and unproven, may decline or experience limited growth and is dependent in part on developers continuing to adopt our platform and use our products.

We were founded in 2008, and have been developing and providing a cloud-based platform that enables developers and organizations to integrate voice, messaging and video communications capabilities into their software applications. This market is relatively new and unproven and is subject to a number of risks and uncertainties. We believe that our revenue currently constitutes a significant portion of the total revenue in this market, and therefore, we believe that our future success will depend in large part on the growth, if any, of this market. The utilization of APIs by developers and organizations to build communications functionality into their applications is still relatively new, and developers and organizations may not recognize the need for, or benefits of, our products and platform. Moreover, if they do not recognize the need for and benefits of our products and platform, they may decide to adopt alternative products and services to satisfy some portion of their business needs. In order to grow our business and extend our market position, we intend to focus on educating developers and other potential customers about the benefits of our products and platform, expanding the functionality of our products and bringing new technologies to market to increase market acceptance and use of our platform. Our ability to expand the market that our products and platform address depends upon a number of factors, including the cost, performance and perceived value associated with such products and platform. The market for our products and platform could fail to grow significantly or there could be a reduction in demand for our products as a result of a lack of developer acceptance, technological challenges, competing products and services, decreases in spending by current and prospective customers, weakening economic conditions and other causes. If our market does not experience significant growth or demand for our products decreases, then our business, results of operations and financial condition could be adversely affected.

We have a history of losses and we are uncertain about our future profitability.

We have incurred net losses in each year since our inception, including net losses of $41.3 million, $35.5 million and $26.8 million in 2016, 2015 and 2014, respectively. We had an accumulated deficit of $186.7 million as of December 31, 2016. We expect to continue to expend substantial financial and other resources on, among other things:

- investments in our engineering team, the development of new products, features and functionality and enhancements to our platform;
- sales and marketing, including expanding our direct sales organization and marketing programs, especially for enterprises and for organizations outside of the United States, and expanding our programs directed at increasing our brand awareness among current and new developers;
- expansion of our operations and infrastructure, both domestically and internationally; and

- general administration, including legal, accounting and other expenses related to being a public company.

These investments may not result in increased revenue or growth of our business. We also expect that our revenue growth rate will decline over time. Accordingly, we may not be able to generate sufficient revenue to offset our expected cost increases and achieve and sustain profitability. If we fail to achieve and sustain profitability, then our business, results of operations and financial condition would be adversely affected.

We have experienced rapid growth and expect our growth to continue, and if we fail to effectively manage our growth, then our business, results of operations and financial condition could be adversely affected.

We have experienced substantial growth in our business since inception. For example, our headcount has grown from 521 employees on December 31, 2015 to 730 employees on December 31, 2016. In addition, we are rapidly expanding our international operations. Our international headcount grew from 69 employees as of December 31, 2015 to 125 employees as of December 31, 2016, and we established operations in one new country within that same period. We expect to continue to expand our international operations in the future. We have also experienced significant growth in the number of customers, usage and amount of data that our platform and associated infrastructure support. This growth has placed and may continue to place significant demands on our corporate culture, operational infrastructure and management.

We believe that our corporate culture has been a critical component of our success. We have invested substantial time and resources in building our team and nurturing our culture. As we expand our business and mature as a public company, we may find it difficult to maintain our corporate culture while managing this growth. Any failure to manage our anticipated growth and organizational changes in a manner that preserves the key aspects of our culture could hurt our chance for future success, including our ability to recruit and retain personnel, and effectively focus on and pursue our corporate objectives. This, in turn, could adversely affect our business, results of operations and financial condition.

In addition, in order to successfully manage our rapid growth, our organizational structure has become more complex. In order to manage these increasing complexities, we will need to continue to scale and adapt our operational, financial and management controls, as well as our reporting systems and procedures. The expansion of our systems and infrastructure will require us to commit substantial financial, operational and management resources before our revenue increases and without any assurances that our revenue will increase.

Finally, continued growth could strain our ability to maintain reliable service levels for our customers. If we fail to achieve the necessary level of efficiency in our organization as we grow, then our business, results of operations and financial condition could be adversely affected.

Our quarterly results may fluctuate, and if we fail to meet securities analysts' and investors' expectations, then the trading price of our Class A common stock and the value of your investment could decline substantially.

Our results of operations, including the levels of our revenue, cost of revenue, gross margin and operating expenses, have fluctuated from quarter to quarter in the past and may continue to vary significantly in the future. These fluctuations are a result of a variety of factors, many of which are outside of our control, may be difficult to predict and may or may not fully reflect the underlying performance of our business. If our quarterly results of operations fall below the expectations of investors or securities analysts, then the trading price of our Class A common stock could decline substantially. Some of the important factors that may cause our results of operations to fluctuate from quarter to quarter include:

- our ability to retain and increase revenue from existing customers and attract new customers;
- fluctuations in the amount of revenue from our Variable Customer Accounts;
- our ability to attract and retain enterprises and international organizations as customers;
- our ability to introduce new products and enhance existing products;
- competition and the actions of our competitors, including pricing changes and the introduction of new products, services and geographies;
- the number of new employees;
- changes in network service provider fees that we pay in connection with the delivery of communications on our platform;
- changes in cloud infrastructure fees that we pay in connection with the operation of our platform;
- changes in our pricing as a result of our optimization efforts or otherwise;
- reductions in pricing as a result of negotiations with our larger customers;
- the rate of expansion and productivity of our sales force, including our enterprise sales force, which has been a focus of our recent expansion efforts;
- change in the mix of products that our customers use;
- change in the revenue mix of U.S. and international products;
- changes in laws, regulations or regulatory enforcement, in the United States or internationally, that impact our ability to market, sell or deliver our products;
- the amount and timing of operating costs and capital expenditures related to the operations and expansion of our business, including investments in our international expansion;
- significant security breaches of, technical difficulties with, or interruptions to, the delivery and use of our products on our platform;
- the timing of customer payments and any difficulty in collecting accounts receivable from customers;
- general economic conditions that may adversely affect a prospective customer's ability or willingness to adopt our products, delay a prospective customer's adoption decision, reduce the revenue that we generate from the use of our products or affect customer retention;
- changes in foreign currency exchange rates;
- extraordinary expenses such as litigation or other dispute-related settlement payments;
- sales tax and other tax determinations by authorities in the jurisdictions in which we conduct business;
- the impact of new accounting pronouncements;
- expenses in connection with mergers, acquisitions or other strategic transactions; and
- fluctuations in stock-based compensation expense.

The occurrence of one or more of the foregoing and other factors may cause our results of operations to vary significantly. As such, we believe that quarter-to-quarter comparisons of our results of operations may not be meaningful and should not be relied upon as an indication of future performance. In addition, a significant percentage of our operating expenses is fixed in nature and is based on forecasted revenue trends. Accordingly, in the event of a revenue shortfall, we may not be able to mitigate the negative impact on our income (loss) and margins in the short term. If we fail to meet or exceed the expectations of investors or securities analysts, then the trading price of our Class A common stock could fall substantially, and we could face costly lawsuits, including securities class action suits.

Additionally, certain large scale events, such as major elections and sporting events, can significantly impact usage levels on our platform, which could cause fluctuations in our results of operations. We expect that significantly increased usage of all communications platforms, including ours, during certain seasonal and one-time events could impact delivery and quality of our products during those events. We also experienced increased expenses in the second quarter of 2015 due to our developer conference, SIGNAL, which we again hosted in the second quarter of 2016 and plan to host annually. Such annual and one-time events may cause fluctuations in our results of operations and may impact both our revenue and operating expenses.

If we are not able to maintain and enhance our brand and increase market awareness of our company and products, then our business, results of operations and financial condition may be adversely affected.

We believe that maintaining and enhancing the "Twilio" brand identity and increasing market awareness of our company and products, particularly among developers, is critical to achieving widespread acceptance of our platform, to strengthen our relationships with our existing customers and to our ability to attract new customers. The successful promotion of our brand will depend largely on our continued marketing efforts, our ability to continue to offer high quality products, our ability to be thought leaders in the cloud communications market and our ability to successfully differentiate our products and platform from competing products and services. Our brand promotion and thought leadership activities may not be successful or yield increased revenue. In addition, independent industry analysts often provide reviews of our products and competing products and services, which may significantly influence the perception of our products in the marketplace. If these reviews are negative or not as strong as reviews of our competitors' products and services, then our brand may be harmed.

From time to time, our customers have complained about our products, such as complaints about our pricing and customer support. If we do not handle customer complaints effectively, then our brand and reputation may suffer, our customers may lose confidence in us and they may reduce or cease their use of our products. In addition, many of our customers post and discuss on social media about Internet-based products and services, including our products and platform. Our success depends, in part, on our ability to generate positive customer feedback and minimize negative feedback on social media channels where existing and potential customers seek and share information. If actions we take or changes we make to our products or platform upset these customers, then their online commentary could negatively affect our brand and reputation. Complaints or negative publicity about us, our products or our platform could materially and adversely impact our ability to attract and retain customers, our business, results of operations and financial condition.

The promotion of our brand also requires us to make substantial expenditures, and we anticipate that these expenditures will increase as our market becomes more competitive and as we expand into new markets. To the extent that these activities increase revenue, this revenue still may not be enough to offset the increased expenses we incur. If we do not successfully maintain and enhance our brand, then our business may not grow, we may see our pricing power reduced relative to competitors and we may lose customers, all of which would adversely affect our business, results of operations and financial condition.

Our business depends on customers increasing their use of our products and any loss of customers or decline in their use of our products could materially and adversely affect our business, results of operations and financial condition.

Our ability to grow and generate incremental revenue depends, in part, on our ability to maintain and grow our relationships with existing customers and to have them increase their usage of our platform. If our customers do not increase their use of our products, then our revenue may decline and our results of operations may be harmed. Customers are charged based on the usage of our products. Most of our customers do not have long-term contractual financial commitments to us and, therefore, most of our customers may reduce or cease their use of our products at any time without penalty or termination charges. We cannot accurately predict customers' usage levels and the loss of customers or reductions in their usage levels of our products may each have a negative impact on our business, results of operations and financial condition. Reductions in usage from existing customers and the loss of customers could cause our Dollar-Based Net Expansion Rate to decline in the future if customers are not satisfied with our products, the value proposition of our products or our ability to otherwise meet their needs and expectations. If a significant number of customers cease using, or reduce their usage of our products, then we may be required to spend significantly more on sales and marketing than we currently plan to spend in order to maintain or increase revenue from customers. Such additional sales and marketing expenditures could adversely affect our business, results of operations and financial condition.

If we are unable to attract new customers in a cost-effective manner, then our business, results of operations and financial condition would be adversely affected.

In order to grow our business, we must continue to attract new customers in a cost-effective manner. We use a variety of marketing channels to promote our products and platform, such as developer events and evangelism, as well as search engine marketing and optimization. We periodically adjust the mix of our other marketing programs such as regional customer events, email campaigns, billboard advertising and public relations initiatives. If the costs of the marketing channels we use increase dramatically, then we may choose to use alternative and less expensive channels, which may not be as effective as the channels we currently use. As we add to or change the mix of our marketing strategies, we may need to expand into more expensive channels than those we are currently in, which could adversely affect our business, results of operations and financial condition. We will incur marketing expenses before we are able to recognize any revenue that the marketing initiatives may generate, and these expenses may not result in increased revenue or brand awareness. We have made in the past, and may make in the future, significant expenditures and investments in new marketing campaigns, and we cannot assure you that any such investments will lead to the cost-effective acquisition of additional customers. If we are unable to maintain effective marketing programs, then our ability to attract new customers could be materially and adversely affected, our advertising and marketing expenses could increase substantially and our results of operations may suffer.

If we do not develop enhancements to our products and introduce new products that achieve market acceptance, our business, results of operations and financial condition could be adversely affected.

Our ability to attract new customers and increase revenue from existing customers depends in part on our ability to enhance and improve our existing products, increase adoption and usage of our products and introduce new products. The success of any enhancements or new products depends on several factors, including timely completion, adequate quality testing, actual performance quality, market-accepted pricing levels and overall market acceptance. Enhancements and new products that we develop may not be introduced in a timely or cost-effective manner, may contain errors or defects, may have interoperability difficulties with our platform or other products or may not achieve the broad market acceptance necessary to generate significant revenue. Furthermore, our ability to increase the usage of our products depends, in part, on the development of new use cases for our products, which is typically driven by our developer community and may be outside of our control. We also have invested, and may continue to invest, in the acquisition of complementary businesses, technologies, services, products and other assets that expand the products that we can offer our customers. We may make these investments without being certain that they will result in products or enhancements that will be accepted by existing or prospective customers. Our ability to generate usage of additional products by our customers may also require increasingly sophisticated and more costly sales efforts and result in a longer sales cycle. If we are unable to successfully enhance our existing products to meet evolving customer requirements, increase adoption and usage of our products, develop new products, or if our efforts to increase the usage of our products are more expensive than we expect, then our business, results of operations and financial condition would be adversely affected.

If we are unable to increase adoption of our products by enterprises, our business, results of operations and financial condition may be adversely affected.

Historically, we have relied on the adoption of our products by software developers through our self-service model for a significant majority of our revenue, and we currently generate only a small portion of our revenue from enterprise customers. Our ability to increase our customer base, especially among enterprises, and achieve broader market acceptance of our products will depend, in part, on our ability to effectively organize, focus and train our sales and marketing personnel. We have limited experience selling to enterprises and only recently established an enterprise-focused sales force.

Our ability to convince enterprises to adopt our products will depend, in part, on our ability to attract and retain sales personnel with experience selling to enterprises. We believe that there is significant competition for experienced sales professionals with the skills and technical knowledge that we require. Our ability to achieve significant revenue growth in the future will depend, in part, on our ability to recruit, train and retain a sufficient number of experienced sales professionals, particularly those with experience selling to enterprises. In addition, even if we are successful in hiring qualified sales personnel, new hires require significant training and experience before they achieve full productivity, particularly for sales efforts targeted at enterprises and new territories. Our recent hires and planned hires may not become as productive as quickly as we expect and we may be unable to hire or retain sufficient numbers of qualified individuals in the future in the markets where we do business. Because we do not have a long history of targeting our sales efforts at enterprises, we cannot predict whether, or to what extent, our sales will increase as we organize and train our sales force or how long it will take for sales personnel to become productive.

As we seek to increase the adoption of our products by enterprises, we expect to incur higher costs and longer sales cycles. In this market segment, the decision to adopt our products may require the approval of multiple technical and business decision makers, including security, compliance, procurement, operations and IT. In addition, while enterprise customers may quickly deploy our products on a limited basis, before they will commit to deploying our products at scale, they often require extensive education about our products and significant customer support time, engage in protracted pricing negotiations and seek to secure readily available development resources. In addition, sales cycles for enterprises are inherently more complex and less predictable than the sales through our self-service model, and some enterprise customers may not use our products enough to generate revenue that justifies the cost to obtain such customers. In addition, these complex and resource intensive sales efforts could place additional strain on our limited product and engineering resources. Further, enterprises, including some of our customers, may choose to develop their own solutions that do not include our products. They also may demand reductions in pricing as their usage of our products increases, which could have an adverse impact on our gross margin. As a result of our limited experience selling and marketing to enterprises, our efforts to sell to these potential customers may not be successful. If we are unable to increase the revenue that we derive from enterprises, then our business, results of operations and financial condition may be adversely affected.

If we are unable to expand our relationships with existing Solution Partner customers and add new Solution Partner customers, our business, results of operations and financial condition could be adversely affected.

We believe that the continued growth of our business depends in part upon developing and expanding strategic relationships with Solution Partner customers. Solution Partner customers embed our software products in their solutions, such as software applications for contact centers and sales force and marketing automation, and then sell such solutions to other businesses. When potential customers do not have the available developer resources to build their own applications, we refer them to our network of Solution Partner customers.

As part of our growth strategy, we intend to expand our relationships with existing Solution Partner customers and add new Solution Partner customers. If we fail to expand our relationships with existing Solution Partner customers or establish relationships with new Solution Partner customers, in a timely and cost-effective manner, or at all, then our business, results of operations and financial condition could be adversely affected. Additionally, even if we are successful at building these relationships but there are problems or issues with integrating our products into the solutions of these customers, our reputation and ability to grow our business may be harmed.

We rely upon Amazon Web Services to operate our platform and any disruption of or interference with our use of Amazon Web Services would adversely affect our business, results of operations and financial condition.

We outsource substantially all of our cloud infrastructure to Amazon Web Services, or AWS, which hosts our products and platform. Customers of our products need to be able to access our platform at any time, without interruption or degradation of performance. AWS runs its own platform that we access, and we are, therefore, vulnerable to service interruptions at AWS. We have experienced, and expect that in the future we may experience interruptions, delays and outages in service and availability from time to time due to a variety of factors, including infrastructure changes, human or software errors, website hosting disruptions and capacity constraints. Capacity constraints could be due to a number of potential causes including technical failures, natural disasters, fraud or security attacks. For instance, in September 2015, AWS suffered a significant outage that had a widespread impact on the ability of our customers to use several of our products. In addition, if our security, or that of AWS, is compromised, our products or platform are unavailable or our users are unable to use our products within a reasonable amount of time or at all, then our business, results of operations and financial condition could be adversely affected. In some instances, we may not be able to identify the cause or causes of these performance problems within a period of time acceptable to our customers. It may become increasingly difficult to maintain and improve our platform performance, especially during peak usage times, as our products become more complex and the usage of our products increases. To the extent that we do not effectively address capacity constraints, either through AWS or alternative providers of cloud infrastructure, our business, results of operations and financial condition may be adversely affected. In addition, any changes in service levels from AWS may adversely affect our ability to meet our customers' requirements.

The substantial majority of the services we use from AWS are for cloud-based server capacity and, to a lesser extent, storage and other optimization offerings. AWS enables us to order and reserve server capacity in varying amounts and sizes distributed across multiple regions. We access AWS infrastructure through standard IP connectivity. AWS provides us with computing and storage capacity pursuant to an agreement that continues until terminated by either party. AWS may terminate the agreement by providing 30 days prior written notice, and may in some cases terminate the agreement immediately for cause upon notice. Although we expect that we could receive similar services from other third parties, if any of our arrangements with AWS are terminated, we could experience interruptions on our platform and in our ability to make our products available to customers, as well as delays and additional expenses in arranging alternative cloud infrastructure services.

Any of the above circumstances or events may harm our reputation, cause customers to stop using our products, impair our ability to increase revenue from existing customers, impair our ability to grow our customer base, subject us to financial penalties and liabilities under our service level agreements and otherwise harm our business, results of operations and financial condition.

To deliver our products, we rely on network service providers for our network service.

We currently interconnect with network service providers around the world to enable the use by our customers of our products over their networks. We expect that we will continue to rely heavily on network service providers for these services going forward. Our reliance on network service providers has reduced our operating flexibility, ability to make timely service changes and control quality of service. In addition, the fees that we are charged by network service providers may change daily or weekly, while we do not typically change our customers' pricing as rapidly. Furthermore, many of these network service providers do not have long-term committed contracts with us and may terminate their agreements with us without notice or restriction. If a significant portion of our network service providers stop providing us with access to their infrastructure, fail to provide these services to us on a cost-effective basis, cease operations, or otherwise terminate these services, the delay caused by qualifying and switching to other network service providers could be time consuming and costly and could adversely affect our business, results of operations and financial condition.

Further, if problems occur with our network service providers, it may cause errors or poor quality communications with our products, and we could encounter difficulty identifying the source of the problem. The occurrence of errors or poor quality communications on our products, whether caused by our platform or a network service provider, may result in the loss of our existing customers or the delay of adoption of our products by potential customers and may adversely affect our business, results of operations and financial condition.

Our future success depends in part on our ability to drive the adoption of our products by international customers.

In 2016, 2015 and 2014, we derived 16%, 14% and 12% of our revenue, respectively, from customer accounts located outside the United States. The future success of our business will depend, in part, on our ability to expand our customer base worldwide. While we have been rapidly expanding our sales efforts internationally, our experience in selling our products outside of the United States is limited. Furthermore, our developer-first business model may not be successful or have the same traction outside the United States. As a result, our investment in marketing our products to these potential customers may not be successful. If we are unable to increase the revenue that we derive from international customers, then our business, results of operations and financial condition may be adversely affected.

We are in the process of expanding our international operations, which exposes us to significant risks.

We are continuing to expand our international operations to increase our revenue from customers outside of the United States as part of our growth strategy. Between December 31, 2015 and December 31, 2016, our international headcount grew from 69 employees to 125 employees, and we opened one new office outside of the United States. We expect, in the future, to open additional foreign offices and hire employees to work at these offices in order to reach new customers and gain access to additional technical talent. Operating in international markets requires significant resources and management attention and will subject us to regulatory, economic and political risks in addition to those we already face in the United States. Because of our limited experience with international operations as well as developing and managing sales in international markets, our international expansion efforts may not be successful.

In addition, we will face risks in doing business internationally that could adversely affect our business, including:

- exposure to political developments in the United Kingdom (U.K.), including the outcome of the U.K. referendum on membership in the European Union (EU), which has created an uncertain political and economic environment, instability for businesses and volatility in global financial markets;
- the difficulty of managing and staffing international operations and the increased operations, travel, infrastructure and legal compliance costs associated with numerous international locations;
- our ability to effectively price our products in competitive international markets;
- new and different sources of competition;
- potentially greater difficulty collecting accounts receivable and longer payment cycles;
- higher or more variable network service provider fees outside of the United States;
- the need to adapt and localize our products for specific countries;
- the need to offer customer support in various languages;
- difficulties in understanding and complying with local laws, regulations and customs in foreign jurisdictions;
- difficulties with differing technical and environmental standards, data privacy and telecommunications regulations and certification requirements outside the United States, which could prevent customers from deploying our products or limit their usage;
- export controls and economic sanctions administered by the Department of Commerce Bureau of Industry and Security and the Treasury Department's Office of Foreign Assets Control;
- compliance with various anti-bribery and anti-corruption laws such as the Foreign Corrupt Practices Act and United Kingdom Bribery Act of 2010;
- tariffs and other non-tariff barriers, such as quotas and local content rules;
- more limited protection for intellectual property rights in some countries;
- adverse tax consequences;
- fluctuations in currency exchange rates, which could increase the price of our products outside of the United States, increase the expenses of our international operations and expose us to foreign currency exchange rate risk;
- currency control regulations, which might restrict or prohibit our conversion of other currencies into U.S. dollars;
- restrictions on the transfer of funds;
- deterioration of political relations between the United States and other countries; and
- political or social unrest or economic instability in a specific country or region in which we operate, which could have an adverse impact on our operations in that location.

Also, due to costs from our international expansion efforts and network service provider fees outside of the United States that are generally higher than domestic rates, our gross margin for international customers is typically lower than our gross margin for domestic customers. As a result, our gross margin may be impacted and fluctuate as we expand our operations and customer base worldwide.

Our failure to manage any of these risks successfully could harm our international operations, and adversely affect our business, results of operations and financial condition.

We currently generate significant revenue from our largest customers, and the loss or decline in revenue from any of these customers could harm our business, results of operations and financial condition.

In 2016, 2015 and 2014, our 10 largest Active Customer Accounts generated an aggregate of 30%, 32% and 28% of our revenue, respectively. In addition, a significant portion of our revenue comes from two customers, one of which is a Variable Customer Account.

In 2016, 2015 and 2014, WhatsApp, a Variable Customer Account, accounted for 9%, 17% and 13% of our revenue, respectively. WhatsApp uses our Programmable Voice products and Programmable Messaging products in its applications to verify new and existing users on its service. Our Variable Customer Accounts, including WhatsApp, do not have long-term contracts with us and may reduce or fully terminate their usage of our products at any time without notice, penalty or termination charges. In addition, the usage of our products by WhatsApp and other Variable Customer Accounts may change significantly between periods.

A second customer, Uber, a Base Customer Account, accounted for more than 10% of our revenue in 2016, and accounted for less than 10% of our revenue in each of 2015 and 2014. Uber uses our Programmable Messaging products and Programmable Voice products. Although Uber has entered into a minimum commitment contract with us, its usage historically has significantly exceeded the minimum revenue commitment in its contract, and it could significantly reduce its usage of our products without notice or penalty.

In the event that our large customers do not continue to use our products, use fewer of our products, or use our products in a more limited capacity, or not at all, our business, results of operations and financial condition could be adversely affected.

The market in which we participate is intensely competitive, and if we do not compete effectively, our business, results of operations and financial condition could be harmed.

The market for cloud communications is rapidly evolving, significantly fragmented and highly competitive, with relatively low barriers to entry in some segments. The principal competitive factors in our market include completeness of offering, credibility with developers, global reach, ease of integration and programmability, product features, platform scalability, reliability, security and performance, brand awareness and reputation, the strength of sales and marketing efforts, customer support, as well as the cost of deploying and using our products. Our competitors fall into four primary categories:

- legacy on-premise vendors, such as Avaya and Cisco;
- regional network service providers that offer limited developer functionality on top of their own physical infrastructure;
- smaller software companies that compete with portions of our product line; and
- SaaS companies that offer prepackaged applications for a narrow set of use cases.

Some of our competitors and potential competitors are larger and have greater name recognition, longer operating histories, more established customer relationships, larger budgets and significantly greater resources than we do. In addition, they have the operating flexibility to bundle competing products and services at little or no perceived incremental cost, including offering them at a lower price as part of a larger sales transaction. As a result, our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer requirements. In addition, some competitors may offer products or services that address one or a limited number of functions at lower prices, with greater depth than our products or in different geographies. Our current and potential competitors may develop and market new products and services with comparable functionality to our products, and this could lead to us having to decrease prices in order to remain competitive. Customers utilize our products in many ways, and use varying levels of functionality that our products offer or are capable of supporting or enabling within their applications. Customers that use many of the features of our products or use our products to support or enable core functionality for their applications may have difficulty or find it impractical to replace our products with a competitor's products or services, while customers that use only limited functionality may be able to more easily replace our products with competitive offerings.

With the introduction of new products and services and new market entrants, we expect competition to intensify in the future. In addition, some of our customers may choose to use our products and our competitors' products at the same time. Further, customers and consumers may choose to adopt other forms of electronic communications or alternative communication platforms.

Moreover, as we expand the scope of our products, we may face additional competition. If one or more of our competitors were to merge or partner with another of our competitors, the change in the competitive landscape could also adversely affect our ability to compete effectively. In addition, some of our competitors have lower list prices than us, which may be attractive to certain customers even if those products have different or lesser functionality. If we are unable to maintain our current pricing due to the competitive pressures, our margins will be reduced and our business, results of operations and financial condition would be adversely affected. In addition, pricing pressures and increased competition generally could result in reduced revenue, reduced margins, increased losses or the failure of our products to achieve or maintain widespread market acceptance, any of which could harm our business, results of operations and financial condition.

We have a limited operating history, which makes it difficult to evaluate our current business and future prospects and increases the risk of your investment.

We were founded and launched our first product in 2008. As a result of our limited operating history, our ability to forecast our future results of operations is limited and subject to a number of uncertainties, including our ability to plan for future growth. Our historical revenue growth should not be considered indicative of our future performance. We have encountered and will encounter risks and uncertainties frequently experienced by growing companies in rapidly changing industries, such as:

- market acceptance of our products and platform;
- adding new customers, particularly enterprises;
- retention of customers;
- the successful expansion of our business, particularly in markets outside of the United States;
- competition;
- our ability to control costs, particularly our operating expenses;
- network outages or security breaches and any associated expenses;
- foreign currency exchange rate fluctuations;
- executing acquisitions and integrating the acquired businesses, technologies, services, products and other assets; and
- general economic and political conditions.

If we do not address these risks successfully, our business, results of operations and financial condition could be adversely affected.

We have limited experience with respect to determining the optimal prices for our products.

We charge our customers based on their use of our products. We expect that we may need to change our pricing from time to time. In the past we have sometimes reduced our prices either for individual customers in connection with long-term agreements or for a particular product. One of the challenges to our pricing is that the fees that we pay to network service providers over whose networks we transmit communications can vary daily or weekly and are affected by volume and other factors which may be outside of our control and difficult to predict. This can result in our incurring increased costs which we may be unable or unwilling to pass through to our customers, which could adversely impact our business, results of operations and financial condition.

Further, as competitors introduce new products or services that compete with ours or reduce their prices, we may be unable to attract new customers or retain existing customers based on our historical pricing. As we expand internationally, we also must determine the appropriate price to enable us to compete effectively internationally. Moreover, enterprises, which are a primary focus for our direct sales efforts, may demand substantial price concessions. In addition, if the mix of products sold changes, including for a shift to IP-based products, then we may need to, or choose to, revise our pricing. As a result, in the future we may be required or choose to reduce our prices or change our pricing model, which could adversely affect our business, results of operations and financial condition.

We typically provide monthly uptime service level commitments of up to 99.95% under our agreements with customers. If we fail to meet these contractual commitments, then our business, results of operations and financial condition could be adversely affected.

Our agreements with customers typically provide for service level commitments. If we suffer extended periods of downtime for our products or platform and we are unable to meet these commitments, then we are contractually obligated to provide a service credit, which is typically 10% of the customer's amounts due for the month in question. In addition, the performance and availability of AWS, which provides our cloud infrastructure is outside our control and, therefore, we are not in full control of whether we meet the service level commitments. As a result, our business, results of operations and financial condition could be adversely affected if we suffer unscheduled downtime that exceeds the service level commitments we have made to our customers. Any extended service outages could adversely affect our business and reputation.

Breaches of our networks or systems, or those of AWS or our network service providers, could degrade our ability to conduct our business, compromise the integrity of our products and platform, result in significant data losses and the theft of our intellectual property, damage our reputation, expose us to liability to third parties and require us to incur significant additional costs to maintain the security of our networks and data.

We depend upon our IT systems to conduct virtually all of our business operations, ranging from our internal operations and research and development activities to our marketing and sales efforts and communications with our customers and business partners. Individuals or entities may attempt to penetrate our network security, or that of our platform, and to cause harm to our business operations, including by misappropriating our proprietary information or that of our customers, employees and business partners or to cause interruptions of our products and platform. Because the techniques used by such individuals or entities to access, disrupt or sabotage devices, systems and networks change frequently and may not be recognized until launched against a target, we may be unable to anticipate these techniques, and we may not become aware in a timely manner of such a security breach which could exacerbate any damage we experience. Additionally, we depend upon our employees and contractors to appropriately handle confidential and sensitive data, including customer data, and to deploy our IT resources in safe and secure manner that does not expose our network systems to security breaches or the loss of data. Any data security incidents, including internal malfeasance by our employees, unauthorized access or usage, virus or similar breach or disruption of us or our services providers, such as AWS or network service providers, could result in loss of confidential information, damage to our reputation, loss of customers, litigation, regulatory investigations, fines, penalties and other liabilities. Accordingly, if our cybersecurity measures and those of AWS and our network service providers, fail to protect against unauthorized access, attacks (which may include sophisticated cyberattacks) and the mishandling of data by our employees and contractors, then our reputation, business, results of operations and financial condition could be adversely affected.

Defects or errors in our products could diminish demand for our products, harm our business and results of operations and subject us to liability.

Our customers use our products for important aspects of their businesses, and any errors, defects or disruptions to our products and any other performance problems with our products could damage our customers' businesses and, in turn, hurt our brand and reputation. We provide regular updates to our products, which have in the past contained, and may in the future contain, undetected errors, failures, vulnerabilities and bugs when first introduced or released. Real or perceived errors, failures or bugs in our products could result in negative publicity, loss of or delay in market acceptance of our platform, loss of competitive position, lower customer retention or claims by customers for losses sustained by them. In such an event, we may be required, or may choose, for customer relations or other reasons, to expend additional resources in order to help correct the problem. In addition, we may not carry insurance sufficient to compensate us for any losses that may result from claims arising from defects or disruptions in our products. As a result, our reputation and our brand could be harmed, and our business, results of operations and financial condition may be adversely affected.

If we fail to adapt and respond effectively to rapidly changing technology, evolving industry standards, changing regulations, and changing customer needs, requirements or preferences, our products may become less competitive.

The market for communications in general, and cloud communications in particular, is subject to rapid technological change, evolving industry standards, changing regulations, as well as changing customer needs, requirements and preferences. The success of our business will depend, in part, on our ability to adapt and respond effectively to these changes on a timely basis. If we are unable to develop new products that satisfy our customers and provide enhancements and new features for our existing products that keep pace with rapid technological and industry change, our business, results of operations and financial condition could be adversely affected. If new technologies emerge that are able to deliver competitive products and services at lower prices, more efficiently, more conveniently or more securely, such technologies could adversely impact our ability to compete effectively.

Our platform must also integrate with a variety of network, hardware, mobile and software platforms and technologies, and we need to continuously modify and enhance our products and platform to adapt to changes and innovation in these technologies. If customers adopt new software platforms or infrastructure, we may be required to develop new versions of our products to work with those new platforms or infrastructure. This development effort may require significant resources, which would adversely affect our business, results of operations and financial condition. Any failure of our products and platform to operate effectively with evolving or new platforms and technologies could reduce the demand for our products. If we are unable to respond to these changes in a cost-effective manner, our products may become less marketable and less competitive or obsolete, and our business, results of operations and financial condition could be adversely affected.

Our reliance on SaaS technologies from third parties may adversely affect our business, results of operations and financial condition.

We rely heavily on hosted SaaS technologies from third parties in order to operate critical internal functions of our business, including enterprise resource planning, customer support and customer relations management services. If these services become unavailable due to extended outages or interruptions, or because they are no longer available on commercially reasonable terms or prices, our expenses could increase. As a result, our ability to manage our operations could be interrupted and our processes for managing our sales process and supporting our customers could be impaired until equivalent services, if available, are identified, obtained and implemented, all of which could adversely affect our business, results of operations and financial condition.

If we are unable to develop and maintain successful relationships with independent software vendors and system integrators, our business, results of operations and financial condition could be adversely affected.

We believe that continued growth of our business depends in part upon identifying, developing and maintaining strategic relationships with independent software vendor (ISV) development platforms and system integrators. As part of our growth strategy, we plan to further develop product partnerships with ISV development platforms to embed our products as additional distribution channels and also intend to further develop partnerships and specific solution areas with systems integrators. If we fail to establish these relationships, in a timely and cost-effective manner, or at all, then our business, results of operations and financial condition could be adversely affected. Additionally, even if we are successful at developing these relationships but there are problems or issues with the integrations or enterprises are not willing to purchase through ISV development platforms, our reputation and ability to grow our business may also be adversely affected.

Any failure to offer high-quality customer support may adversely affect our relationships with our customers and prospective customers, and adversely affect our business, results of operations and financial condition.

Many of our customers depend on our customer support team to assist them in deploying our products effectively to help them to resolve post-deployment issues quickly and to provide ongoing support. If we do not devote sufficient resources or are otherwise unsuccessful in assisting our customers effectively, it could adversely affect our ability to retain existing customers and could prevent prospective customers from adopting our products. We may be unable to respond quickly enough to accommodate short-term increases in demand for customer support. We also may be unable to modify the nature, scope and delivery of our customer support to compete with changes in the support services provided by our competitors. Increased demand for customer support, without corresponding revenue, could increase costs and adversely affect our business, results of operations and financial condition. Our sales are highly dependent on our business reputation and on positive recommendations from developers. Any failure to maintain high-quality customer support, or a market perception that we do not maintain high-quality customer support, could adversely affect our reputation, business, results of operations and financial condition.

We have been sued, and may, in the future, be sued by third parties for alleged infringement of their proprietary rights, which could adversely affect our business, results of operations and financial condition.

There is considerable patent and other intellectual property development activity in our industry. Our future success depends, in part, on not infringing the intellectual property rights of others. Our competitors or other third parties have claimed and may, in the future, claim that we are infringing upon their intellectual property rights, and we may be found to be infringing upon such rights. For example, on April 30, 2015, Telesign Corporation, or Telesign, filed a lawsuit against us in the United States District Court, Central District of California (Telesign I). Telesign alleges that we are infringing three U.S. patents that it holds: U.S. Patent No. 8,462,920 ("'920"), U.S. Patent No. 8,687,038 ("'038") and U.S. Patent No. 7,945,034 ("'034"). The patent infringement allegations in the lawsuit relate to our Programmable Authentication products, our two-factor authentication use case and an API tool to find information about a phone number. Subsequently, on March 28, 2016, Telesign filed a second lawsuit against us in the United States District Court, Central District of California (Telesign II), alleging infringement of U.S. Patent No. 9,300,792 ("'792") held by Telesign. The '792 patent is in the same patent family as the ‘920 and ‘038 patents asserted in Telesign I, and the infringement allegations in Telesign II relate to our Programmable Authentication products and our two-factor authentication use case. With respect to each of the patents asserted in Telesign I and Telesign II, the complaints seek, among other things, to enjoin us from allegedly infringing these patents along with damages for lost profits. See the section titled "Item 3. Legal Proceedings." We intend to vigorously defend these lawsuits and believe we have meritorious defenses to each. However, litigation is inherently uncertain, and any judgment or injunctive relief entered against us or any adverse settlement could negatively affect our business, results of operations and financial condition. In addition, litigation can involve significant management time and attention and be expensive, regardless of outcome. During the course of these lawsuits, there may be announcements of the results of hearings and motions and other interim developments related to the litigation. If securities analysts or investors regard these announcements as negative, the trading price of our Class A common stock may decline.

In the future, we may receive claims from third parties, including our competitors, that our products or platform and underlying technology infringe or violate a third party's intellectual property rights, and we may be found to be infringing upon such rights. We may be unaware of the intellectual property rights of others that may cover some or all of our technology. Any claims or litigation could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, prevent us from offering our products, or require that we comply with other unfavorable terms. We may also be obligated to indemnify our customers or business partners in connection with any such litigation and to obtain licenses or modify our products or platform, which could further exhaust our resources. Even if we were to prevail in the event of claims or litigation against us, any claim or litigation regarding intellectual property could be costly and time-consuming and divert the attention of our management and other employees from our business. Patent infringement, trademark infringement, trade secret misappropriation and other intellectual property claims and proceedings brought against us, whether successful or not, could harm to our brand, business, results of operations and financial condition.

Indemnity provisions in various agreements potentially expose us to substantial liability for intellectual property infringement and other losses.

Our agreements with customers and other third parties typically include indemnification or other provisions under which we agree to indemnify or otherwise be liable to them for losses suffered or incurred as a result of claims of intellectual property infringement, damages caused by us to property or persons or other liabilities relating to or arising from our products or platform or other acts or omissions. The term of these contractual provisions often survives termination or expiration of the applicable agreement. Large indemnity payments or damage claims from contractual breach could harm our business, results of operations and financial condition. Although we normally contractually limit our liability with respect to such obligations, we may still incur substantial liability related to them. Any dispute with a customer with respect to such obligations could have adverse effects on our relationship with that customer and other current and prospective customers, reduce demand for our products and adversely affect our business, results of operations and financial condition.

We could incur substantial costs in protecting or defending our intellectual property rights, and any failure to protect our intellectual property could adversely affect our business, results of operations and financial condition.

Our success depends, in part, on our ability to protect our brand and the proprietary methods and technologies that we develop under patent and other intellectual property laws of the United States and foreign jurisdictions so that we can prevent others from using our inventions and proprietary information. As of December 31, 2016, we had 13 registered trademarks in the United States and 35 registered trademarks in foreign jurisdictions. In addition, as of December 31, 2016, in the United States, we had been issued 58 patents, which expire between 2029 and 2036, and had 43 patent applications pending for examination and four pending provisional applications. As of such date, we also had six issued patents and eight patent applications pending for examination in foreign jurisdictions, all of which are related to U.S. patents and patent applications. There can be no assurance that additional patents will be issued or that any patents that have been issued or that may be issued in the future will provide significant protection for our intellectual property. If we fail to protect our intellectual property rights adequately, our competitors might gain access to our technology and our business, results of operations and financial condition may be adversely affected.

There can be no assurance that the particular forms of intellectual property protection that we seek, including business decisions about when to file trademark applications and patent applications, will be adequate to protect our business. We could be required to spend significant resources to monitor and protect our intellectual property rights. Litigation may be necessary in the future to enforce our intellectual property rights, determine the validity and scope of our proprietary rights or those of others, or defend against claims of infringement or invalidity. Such litigation could be costly, time-consuming and distracting to management, result in a diversion of significant resources, the narrowing or invalidation of portions of our intellectual property and have an adverse effect on our business, results of operations and financial condition. Our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights or alleging that we infringe the counterclaimant's own intellectual property. Any of our patents, copyrights, trademarks or other intellectual property rights could be challenged by others or invalidated through administrative process or litigation.

We also rely, in part, on confidentiality agreements with our business partners, employees, consultants, advisors, customers and others in our efforts to protect our proprietary technology, processes and methods. These agreements may not effectively prevent disclosure of our confidential information, and it may be possible for unauthorized parties to copy our software or other proprietary technology or information, or to develop similar software independently without our having an adequate remedy for unauthorized use or disclosure of our confidential information. In addition, others may independently discover our trade secrets and proprietary information, and in these cases we would not be able to assert any trade secret rights against those parties. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position.

In addition, the laws of some countries do not protect intellectual property and other proprietary rights to the same extent as the laws of the United States. To the extent we expand our international activities, our exposure to unauthorized copying, transfer and use of our proprietary technology or information may increase.

We cannot be certain that our means of protecting our intellectual property and proprietary rights will be adequate or that our competitors will not independently develop similar technology. If we fail to meaningfully protect our intellectual property and proprietary rights, our business, results of operations and financial condition could be adversely affected.

Our use of open source software could negatively affect our ability to sell our products and subject us to possible litigation.

Our products and platform incorporate open source software, and we expect to continue to incorporate open source software in our products and platform in the future. Few of the licenses applicable to open source software have been interpreted by courts, and there is a risk that these licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to commercialize our products and platform. Moreover, although we have implemented policies to regulate the use and incorporation of open source software into our products and platform, we cannot be certain that we have not incorporated open source software in our products or platform in a manner that is inconsistent with such policies. If we fail to comply with open source licenses, we may be subject to certain requirements, including requirements that we offer our products that incorporate the open source software for no cost, that we make available source code for modifications or derivative works we create based upon, incorporating or using the open source software and that we license such modifications or derivative works under the terms of applicable open source licenses. If an author or other third party that distributes such open source software were to allege that we had not complied with the conditions of one or more of these licenses, we could be required to incur significant legal expenses defending against such allegations and could be subject to significant damages, enjoined from generating revenue from customers using products that contained the open source software and required to comply with onerous conditions or restrictions on these products. In any of these events, we and our customers could be required to seek licenses from third parties in order to continue offering our products and platform and to re-engineer our products or platform or discontinue offering our products to customers in the event re-engineering cannot be accomplished on a timely basis. Any of the foregoing could require us to devote additional research and development resources to re-engineer our products or platform, could result in customer dissatisfaction and may adversely affect our business, results of operations and financial condition.

We may acquire or invest in companies, which may divert our management's attention and result in debt or dilution to our stockholders. We may be unable to integrate acquired businesses and technologies successfully or achieve the expected benefits of such acquisitions.

We may evaluate and consider potential strategic transactions, including acquisitions of, or investments in, businesses, technologies, services, products and other assets in the future. We also may enter into relationships with other businesses to expand our products and platform, which could involve preferred or exclusive licenses, additional channels of distribution, discount pricing or investments in other companies.

Any acquisition, including our acquisition of Authy, of the proprietary WebRTC media processing technologies built by the team behind the Kurento Open Source Project and of Beepsend A.B., investment or business relationship may result in unforeseen operating difficulties and expenditures. In particular, we may encounter difficulties assimilating or integrating the businesses, technologies, products, personnel or operations of the acquired companies, particularly if the key personnel of the acquired company choose not to work for us, their products or services are not easily adapted to work with our platform, or we have difficulty retaining the customers of any acquired business due to changes in ownership, management or otherwise. Acquisitions may also disrupt our business, divert our resources and require significant management attention that would otherwise be available for development of our existing business. Moreover, the anticipated benefits of any acquisition, investment or business relationship may not be realized or we may be exposed to unknown risks or liabilities.

Negotiating these transactions can be time-consuming, difficult and expensive, and our ability to complete these transactions may often be subject to approvals that are beyond our control. Consequently, these transactions, even if announced, may not be completed. For one or more of those transactions, we may:

- issue additional equity securities that would dilute our existing stockholders;
- use cash that we may need in the future to operate our business;
- incur large charges or substantial liabilities;
- incur debt on terms unfavorable to us or that we are unable to repay;
- encounter difficulties retaining key employees of the acquired company or integrating diverse software codes or business cultures; and
- become subject to adverse tax consequences, substantial depreciation, or deferred compensation charges.

The occurrence of any of these foregoing could adversely affect our business, results of operations and financial condition.

We depend largely on the continued services of our senior management and other key employees, the loss of any of whom could adversely affect our business, results of operations and financial condition.

Our future performance depends on the continued services and contributions of our senior management and other key employees to execute on our business plan, to develop our products and platform, to deliver our products to customers, to attract and retain customers and to identify and pursue opportunities. The loss of services of senior management or other key employees could significantly delay or prevent the achievement of our development and strategic objectives. In particular, we depend to a considerable degree on the vision, skills, experience and effort of our co-founder and Chief Executive Officer, Jeff Lawson. None of our executive officers or other senior management personnel is bound by a written employment agreement and any of them may terminate employment with us at any time with no advance notice. The replacement of any of our senior management personnel would likely involve significant time and costs, and such loss could significantly delay or prevent the achievement of our business objectives. The loss of the services of our senior management or other key employees for any reason could adversely affect our business, results of operations and financial condition.

Our management team has limited experience managing a public company.

Most members of our management team have limited experience managing a publicly-traded company, interacting with public company investors and complying with the increasingly complex laws pertaining to public companies. Our management team may not successfully or efficiently manage us as a public company subject to significant regulatory oversight and reporting obligations under the federal securities laws and the continuous scrutiny of securities analysts and investors. These new obligations and constituents require significant attention from our senior management and could divert their attention away from the day-to-day management of our business, which could adversely affect our business, results of operations and financial condition.

If we are unable to hire, retain and motivate qualified personnel, our business will suffer.

Our future success depends, in part, on our ability to continue to attract and retain highly skilled personnel. We believe that there is, and will continue to be, intense competition for highly skilled management, technical, sales and other personnel with experience in our industry in the San Francisco Bay Area, where our headquarters are located, and in other locations where we maintain offices. We must provide competitive compensation packages and a high-quality work environment to hire, retain and motivate employees. If we are unable to retain and motivate our existing employees and attract qualified personnel to fill key positions, we may be unable to manage our business effectively, including the development, marketing and sale of our products, which could adversely affect our business, results of operations and financial condition. To the extent we hire personnel from competitors, we also may be subject to allegations that they have been improperly solicited or divulged proprietary or other confidential information.

Volatility in, or lack of performance of, our stock price may also affect our ability to attract and retain key personnel. Many of our key personnel are, or will soon be, vested in a substantial amount of shares of Class A common stock or stock options. Employees may be more likely to terminate their employment with us if the shares they own or the shares underlying their vested options have significantly appreciated in value relative to the original purchase prices of the shares or the exercise prices of the options, or, conversely, if the exercise prices of the options that they hold are significantly above the trading price of our Class A common stock. If we are unable to retain our employees, our business, results of operations and financial condition could be adversely affected.

Our products and platform and our business are subject to a variety of U.S. and international laws and regulations, including those regarding privacy, data protection and information security, and our customers may be subject to regulations related to the handling and transfer of certain types of sensitive and confidential information. Any failure of our products or products to comply with or enable our customers and channel partners to comply with applicable laws and regulations would harm our business, results of operations and financial condition.

We and our customers that use our products may be subject to privacy- and data protection-related laws and regulations that impose obligations in connection with the collection, processing and use of personal data, financial data, health data or other similar data. Existing U.S. federal and various state and foreign privacy- and data protection-related laws and regulations are evolving and subject to potentially differing interpretations, and various legislative and regulatory bodies may expand current or enact new laws and regulations regarding privacy- and data protection-related matters. New laws, amendments to or re-interpretations of existing laws and regulations, rules of self-regulatory bodies, industry standards and contractual obligations may impact our business and practices, and we may be required to expend significant resources to adapt to these changes, or stop offering our products in certain countries. These developments could adversely affect our business, results of operations and financial condition.

The U.S. federal and various state and foreign governments have adopted or proposed limitations on, or requirements regarding, the collection, distribution, use, security and storage of personally identifiable information of individuals. The U.S. Federal Trade Commission and numerous state attorneys general are applying federal and state consumer protection laws to impose standards on the online collection, use and dissemination of data, and to the security measures applied to such data. Similarly, many foreign countries and governmental bodies, including the EU member states, have laws and regulations concerning the collection and use of personally identifiable information obtained from their residents or by businesses operating within their jurisdiction, which are often more restrictive than those in the United States. Laws and regulations in these jurisdictions apply broadly to the collection, use, storage, disclosure and security of personally identifiable information that identifies or may be used to identify an individual, such as names, email addresses and, in some jurisdictions, IP addresses. Although we endeavor to have our products and platform comply with applicable laws and regulations, these and other obligations may be modified, they may be interpreted and applied in an inconsistent manner from one jurisdiction to another, and they may conflict with one another, other regulatory requirements, contractual commitments or our internal practices. In addition, we may find it necessary or desirable to join industry or other self-regulatory bodies or other privacy- or data protection-related organizations that require compliance with their rules pertaining to privacy and data protection. We also may be bound by contractual obligations relating to our collection, use and disclosure of personal, financial and other data.

We have in the past relied on adherence to the U.S. Department of Commerce's Safe Harbor Privacy Principles and compliance with the U.S.—EU and U.S.—Swiss Safe Harbor Frameworks as agreed to and set forth by the U.S. Department of Commerce, and the European Union and Switzerland. As a result of the October 6, 2015 European Union Court of Justice, or ECJ, opinion in Case C-362/14 (Schrems v. Data Protection Commissioner) regarding the adequacy of the U.S.—EU Safe Harbor Framework, the U.S.—EU Safe Harbor Framework is no longer deemed to be a valid method of compliance with restrictions set forth in the Data Protection Directive (and member states' implementations thereof) regarding the transfer of data outside of the European Economic Area. In light of the ECJ opinion, we anticipate engaging in efforts to legitimize data transfers from the European Economic Area. We may be unsuccessful in establishing legitimate means of transferring data from the European Economic Area, we may experience hesitancy, reluctance, or refusal by European or multinational customers to continue to use our services due to the potential risk exposure to such customers as a result of the ECJ ruling, and we and our customers are at risk of enforcement actions taken by an EU data protection authority until such point in time that we ensure that all data transfers to us from the European Economic Area are legitimized. In addition, as the United Kingdom transitions out of the EU, we may encounter additional complexity with respect to data privacy.

With respect to all of the foregoing, any failure or perceived failure by us, our products or our platform to comply with U.S., EU or other foreign privacy or data security laws, policies, industry standards or legal obligations, or any security incident that results in the unauthorized access to, or acquisition, release or transfer of, personally identifiable information or other customer data may result in governmental investigations, inquiries, enforcement actions and prosecutions, private litigation, fines and penalties or adverse publicity. For example, on February 18, 2016, a putative class action complaint was filed in the Alameda County Superior Court in California. The complaint alleges that our products permit the interception, recording and disclosure of communications at a customer's request and in violation of the California Invasion of Privacy Act. The complaint seeks injunctive relief as well as monetary damages. We intend to vigorously defend this lawsuit and believe we have meritorious defenses; however, this litigation, any other such actions in the future and related penalties could divert management's attention and resources, adversely affect our brand, business, results of operations and financial condition.

We expect that there will continue to be new proposed laws, regulations and industry standards concerning privacy, data protection and information security in the United States, the European Union and other jurisdictions, and we cannot yet determine the impact such future laws, regulations and standards may have on our business. Because global laws, regulations and industry standards concerning privacy and data security have continued to develop and evolve rapidly, it is possible that we or our products or platform may not be, or may not have been, compliant with each such applicable law, regulation and industry standard.

Any such new laws, regulations, other legal obligations or industry standards, or any changed interpretation of existing laws, regulations or other standards may require us to incur additional costs and restrict our business operations. If our privacy or data security measures fail to comply with current or future laws, regulations, policies, legal obligations or industry standards, we may be subject to litigation, regulatory investigations, fines or other liabilities, as well as negative publicity and a potential loss of business.

Changes in laws and regulations related to the Internet or changes in the Internet infrastructure itself may diminish the demand for our products, and could adversely affect our business, results of operations and financial condition.

The future success of our business depends upon the continued use of the Internet as a primary medium for commerce, communications and business applications. Federal, state or foreign government bodies or agencies have in the past adopted, and may in the future adopt, laws or regulations affecting the use of the Internet as a commercial medium. Changes in these laws or regulations could require us to modify our products and platform in order to comply with these changes. In addition, government agencies or private organizations have imposed and may impose additional taxes, fees or other charges for accessing the Internet or commerce conducted via the Internet. These laws or charges could limit the growth of Internet-related commerce or communications generally, or result in reductions in the demand for Internet-based products and services such as our products and platform. In addition, the use of the Internet as a business tool could be adversely affected due to delays in the development or adoption of new standards and protocols to handle increased demands of Internet activity, security, reliability, cost, ease-of-use, accessibility and quality of service. The performance of the Internet and its acceptance as a business tool has been adversely affected by "viruses", "worms", and similar malicious programs. If the use of the Internet is reduced as a result of these or other issues, then demand for our products could decline, which could adversely affect our business, results of operations and financial condition.

Certain of our products are subject to telecommunications-related regulations, and future legislative or regulatory actions could adversely affect our business, results of operations and financial condition.

As a provider of communications products, we are subject to existing or potential FCC regulations relating to privacy, Telecommunications Relay Service Fund contributions and other requirements. FCC classification of our Internet voice communications products as telecommunications services could result in additional federal and state regulatory obligations. If we do not comply with FCC rules and regulations, we could be subject to FCC enforcement actions, fines, loss of licenses and possibly restrictions on our ability to operate or offer certain of our products. Any enforcement action by the FCC, which may be a public process, would hurt our reputation in the industry, possibly impair our ability to sell our products to customers and could adversely affect our business, results of operations and financial condition.

Our products are subject to a number of FCC regulations and laws that are administered by the FCC. Among others, we must comply (in whole or in part) with:

- the Communications Act of 1934, as amended, which regulates communications services and the provision of such services;
- the Telephone Consumer Protection Act, or TCPA, which limits the use of automatic dialing systems, artificial or prerecorded voice messages, SMS text messages and fax machines;
- the Communications Assistance for Law Enforcement Act, or CALEA, which requires covered entities to assist law enforcement in undertaking electronic surveillance;
- requirements to safeguard the privacy of certain customer information;
- payment of annual FCC regulatory fees based on our interstate and international revenues;
- rules pertaining to access to our services by people with disabilities and contributions to the Telecommunications Relay Services fund; and
- FCC rules regarding the use of customer proprietary network information.

If we do not comply with any current or future rules or regulations that apply to our business, we could be subject to substantial fines and penalties, and we may have to restructure our offerings, exit certain markets or raise the price of our products. In addition, any uncertainty regarding whether particular regulations apply to our business, and how they apply, could increase our costs or limit our ability to grow. Any of the foregoing could adversely affect our business, results of operations and financial condition.

As we continue to expand internationally, we have become subject to telecommunications laws and regulations in the foreign countries where we offer our products. Internationally, we currently offer our products in over 180 countries.

Our international operations are subject to country-specific governmental regulation and related actions that have increased and may continue to increase our costs or impact our products and platform or prevent us from offering or providing our products in certain countries. Certain of our products may be used by customers located in countries where voice and other forms of IP communications may be illegal or require special licensing or in countries on a U.S. embargo list. Even where our products are reportedly illegal or become illegal or where users are located in an embargoed country, users in those countries may be able to continue to use our products in those countries notwithstanding the illegality or embargo. We may be subject to penalties or governmental action if consumers continue to use our products in countries where it is illegal to do so, and any such penalties or governmental action may be costly and may harm our business and damage our brand and reputation. We may be required to incur additional expenses to meet applicable international regulatory requirements or be required to discontinue those services if required by law or if we cannot or will not meet those requirements.

If we are unable to effectively process local number and toll-free number portability provisioning in a timely manner or to obtain or retain direct inward dialing numbers and local or toll-free numbers, our business and results of operations may be adversely affected.

We support local number and toll-free number portability, which allows our customers to transfer their existing phone numbers to us and thereby retain their existing phone numbers when subscribing to our voice products. Transferring existing numbers is a manual process that can take up to 15 business days or longer to complete. A new customer of our voice products must maintain both our voice product and the customer's existing phone service during the number transferring process. Any delay that we experience in transferring these numbers typically results from the fact that we depend on network service providers to transfer these numbers, a process that we do not control, and these network service provider may refuse or substantially delay the transfer of these numbers to us. Local number portability is considered an important feature by many potential customers, and if we fail to reduce any related delays, then we may experience increased difficulty in acquiring new customers.

In addition, our future success depends in part on our ability to procure large quantities of local and toll-free direct inward dialing numbers, or DIDs, in the United States and foreign countries at a reasonable cost and without restrictions. Our ability to procure, distribute and retain DIDs depends on factors outside of our control, such as applicable regulations, the practices of network service providers that provide DIDs, such as offering DIDs with conditional minimum volume call level requirements, the cost of these DIDs and the level of overall competitive demand for new DIDs. Due to their limited availability, there are certain popular area code prefixes that we generally cannot obtain. Our inability to acquire or retain DIDs for our operations would make our voice and messaging products less attractive to potential customers in the affected local geographic areas. In addition, future growth in our customer base, together with growth in the customer bases of other providers of cloud communications, has increased, which increases our dependence on needing sufficiently large quantities of DIDs. It may become increasingly difficult to source larger quantities of DIDs as we scale and we may need to pay higher costs for DIDs, and DIDs may become subject to more stringent usage conditions. Any of the foregoing could adversely affect our business, results of operations and financial condition.

We face a risk of litigation resulting from customer misuse of our software to send unauthorized text messages in violation of the Telephone Consumer Protection Act.

Text messages may subject us to potential risks, including liabilities or claims relating to consumer protection laws. For example, the Telephone Consumer Protection Act of 1991 restricts telemarketing and the use of automatic SMS text messages without proper consent. This has resulted in civil claims against the Company and requests for information through third-party subpoenas. The scope and interpretation of the laws that are or may be applicable to the delivery of text messages are continuously evolving and developing. If we do not comply with these laws or regulations or if we become liable under these laws or regulations due to the failure of our customers to comply with these laws by obtaining proper consent, we could face direct liability.

We may be subject to governmental export controls and economic sanctions regulations that could impair our ability to compete in international markets due to licensing requirements and subject us to liability if we are not in compliance with applicable laws.

Various of our products and services may be subject to export control and economic sanctions regulations, including the U.S. Export Administration Regulations, U.S. Customs regulations and various economic and trade sanctions regulations administered by the U.S. Treasury Department's

Office of Foreign Assets Controls. Exports of our products and the provision of our services must be made in compliance with these laws and regulations. Although we take precautions to prevent our products from being provided in violation of such laws, we are aware of previous exports of certain of our products to a small number of persons and organizations that are the subject of U.S. sanctions or located in countries or regions subject to U.S. sanctions. If we fail to comply with these laws and regulations, we and certain of our employees could be subject to substantial civil or criminal penalties, including: the possible loss of export privileges; fines, which may be imposed on us and responsible employees or managers; and, in extreme cases, the incarceration of responsible employees or managers. Obtaining the necessary authorizations, including any required license, for a particular deployment may be time-consuming, is not guaranteed and may result in the delay or loss of sales opportunities. In addition, changes in our products or services, or changes in applicable export or economic sanctions regulations may create delays in the introduction and deployment of our products and services in international markets, or, in some cases, prevent the export of our products or provision of our services to certain countries or end users. Any change in export or economic sanctions regulations, shift in the enforcement or scope of existing regulations, or change in the countries, governments, persons or technologies targeted by such regulations, could also result in decreased use of our products and services, or in our decreased ability to export our products or provide our services to existing or prospective customers with international operations. Any decreased use of our products and services or limitation on our ability to export our products and provide our services could adversely affect our business, results of operations and financial condition.

Further, we incorporate encryption technology into certain of our products. Various countries regulate the import of certain encryption technology, including through import permitting and licensing requirements, and have enacted laws that could limit our customers' ability to import our products into those countries. Encryption products and the underlying technology may also be subject to export control restrictions. Governmental regulation of encryption technology and regulation of exports of encryption products, or our failure to obtain required approval for our products, when applicable, could harm our international sales and adversely affect our revenue. Compliance with applicable regulatory requirements regarding the export of our products and provision of our services, including with respect to new releases of our products and services, may create delays in the introduction of our products and services in international markets, prevent our customers with international operations from deploying our products and using our services throughout their globally-distributed systems or, in some cases, prevent the export of our products or provision of our services to some countries altogether.

We may have additional tax liabilities, which could harm our business, results of operations and financial condition.

Significant judgments and estimates are required in determining our provision for income taxes and other tax liabilities. Our tax expense may be impacted, for example, if tax laws change or are clarified to our detriment or if tax authorities successfully challenge the tax positions that we take, such as, for example, positions relating to the arms-length pricing standards for our intercompany transactions and our state sales and use tax positions. In determining the adequacy of income taxes, we assess the likelihood of adverse outcomes that could result if our tax positions were challenged by the Internal Revenue Service, or IRS, and other tax authorities. Should the IRS or other tax authorities assess additional taxes as a result of examinations, we may be required to record charges to operations that could adversely affect our results of operations and financial condition.

We could be subject to liability for historic and future sales, use and similar taxes, which could adversely affect our results of operations.

We conduct operations in many tax jurisdictions throughout the United States. In many of these jurisdictions, non-income-based taxes, such as sales and use and telecommunications taxes, are assessed on our operations. We are subject to indirect taxes, and may be subject to certain other taxes, in some of these jurisdictions. Historically, we have not billed or collected these taxes and, in accordance with generally accepted accounting principles in the United States, or U.S. GAAP, we have recorded a provision for our tax exposure in these jurisdictions when it is both probable that a liability has been incurred and the amount of the exposure can be reasonably estimated. These estimates include several key assumptions including, but not limited to, the taxability of our products, the jurisdictions in which we believe we have nexus, and the sourcing of revenues to those jurisdictions. In the event these jurisdictions challenge our assumptions and analysis, our actual exposure could differ materially from our current estimates.

We are undergoing an audit in one jurisdiction and may be subject to additional scrutiny from state tax authorities in these or other jurisdictions and may have additional exposure related to our historic operations. Furthermore, certain jurisdictions in which we do not collect such taxes may assert that such taxes are applicable, which could result in tax assessments, penalties and interest, and we may be required to collect such taxes in the future. Such tax assessments, penalties and interest or future requirements may adversely affect our business, results of operations and financial condition.

Currently, we do not collect telecommunications-based taxes from our customers. We are developing the operational capability to collect these taxes from customers. When we begin to collect such taxes from customers, we may have some customers that question the incremental tax charges and some may seek to negotiate lower pricing from us, which could adversely affect our business, results of operations and financial condition.

Our global operations and structure subject us to potentially adverse tax consequences.

We generally conduct our global operations through subsidiaries and report our taxable income in various jurisdictions worldwide based upon our business operations in those jurisdictions. In particular, our intercompany relationships are subject to complex transfer pricing regulations administered by taxing authorities in various jurisdictions. Also, our tax expense could be affected depending on the applicability of withholding and other taxes (including withholding and indirect taxes on software licenses and related intercompany transactions) under the tax laws of certain jurisdictions in which we have business operations. The relevant revenue and taxing authorities may disagree with positions we have taken generally, or our determinations as to the value of assets sold or acquired or income and expenses attributable to specific jurisdictions. If such a disagreement were to occur, and our position were not sustained, we could be required to pay additional taxes, interest and penalties, which could result in one-time tax charges, higher effective tax rates, reduced cash flows and lower overall profitability of our operations.

Certain government agencies in jurisdictions where we and our affiliates do business have had an extended focus on issues related to the taxation of multinational companies. In addition, the Organization for Economic Co-operation and Development is conducting a project focused on base erosion and profit shifting in international structures, which seeks to establish certain international standards for taxing the worldwide income of multinational companies. As a result of these developments, the tax laws of certain countries in which we and our affiliates do business could change on a prospective or retroactive basis, and any such changes could increase our liabilities for taxes, interest and penalties, and therefore could harm our business, cash flows, results of operations and financial position.

Changes in the U.S. taxation of international business activities or the adoption of other tax reform policies could materially impact our business, results of operations and financial condition.

Changes to U.S. tax laws that may be enacted in the future could impact the tax treatment of our foreign earnings. Due to the expansion of our international business activities, any changes in the U.S. taxation of such activities may increase our worldwide effective tax rate and adversely affect our business, results of operations and financial condition.

If we experience excessive credit card or fraudulent activity, we could incur substantial costs.

Most of our customers authorize us to bill their credit card accounts directly for service fees that we charge. If people pay for our subscriptions with stolen credit cards, we could incur substantial third-party vendor costs for which we may not be reimbursed. Further, our customers provide us with credit card billing information online, and we do not review the physical credit cards used in these transactions, which increases our risk of exposure to fraudulent activity. We also incur charges, which we refer to as chargebacks, from the credit card companies from claims that the customer did not authorize the credit card transaction to purchase our subscription. If the number of unauthorized credit card transactions becomes excessive, we could be assessed substantial fines for excess chargebacks and we could lose the right to accept credit cards for payment.

Our products may also be subject to fraudulent usage, including but not limited to revenue share fraud, domestic traffic pumping, subscription fraud, premium text message scams and other fraudulent schemes. Although our customers are required to set passwords or personal identification numbers to protect their accounts, third parties have in the past been, and may in the future be, able to access and use their accounts through fraudulent means. Furthermore, spammers attempt to use our products to send targeted and untargeted spam messages. We cannot be certain that our efforts to defeat spamming attacks will be able to eliminate all spam messages from being sent using our platform. In addition, a cybersecurity breach of our customers' systems could result in exposure of their authentication credentials, unauthorized access to their accounts or fraudulent calls on their accounts, any of which could adversely affect our business, results of operations and financial condition.

Unfavorable conditions in our industry or the global economy or reductions in spending on information technology and communications could adversely affect our business, results of operations and financial condition.

Our results of operations may vary based on the impact of changes in our industry or the global economy on our customers. Our results of operations depend in part on demand for information technology and cloud communications. In addition, our revenue is dependent on the usage of our products, which in turn is influenced by the scale of business that our customers are conducting. To the extent that weak economic conditions result in a reduced volume of business for, and communications by, our customers and prospective customers, demand for, and use of, our products may decline. Furthermore, weak economic conditions may make it more difficult to collect on outstanding accounts receivable. Additionally, historically, we have generated the substantial majority of our revenue from small and medium-sized businesses, and we expect this to continue for the foreseeable future. Small and medium-sized business may be affected by economic downturns to a greater extent than enterprises, and typically have more limited financial resources, including capital-borrowing capacity, than enterprises. If our customers reduce their use of our products, or prospective customers delay adoption or elect not to adopt our products, as a result of a weak economy, this could adversely affect our business, results of operations and financial condition.

We may require additional capital to support our business, and this capital might not be available on acceptable terms, if at all.

We intend to continue to make investments to support our business and may require additional funds. In particular, we may seek additional funds to develop new products and enhance our platform and existing products, expand our operations, including our sales and marketing organizations and our presence outside of the United States, improve our infrastructure or acquire complementary businesses, technologies, services, products and other assets. In addition, we may use a portion of our cash to satisfy tax withholding and remittance obligations related to outstanding restricted stock units. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through future issuances of equity or convertible debt securities, our stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our Class A and Class B common stock. Any debt financing that we may secure in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities. We may not be able to obtain additional financing on terms favorable to us, if at all. 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 our business growth, scale our infrastructure, develop product enhancements and to respond to business challenges could be significantly impaired, and our business, results of operations and financial condition may be adversely affected.

Our credit facility contains restrictive and financial covenants that may limit our operating flexibility.

Our credit facility contains certain restrictive covenants that either limit our ability to, or require a mandatory prepayment in the event we, incur additional indebtedness and liens, merge with other companies or consummate certain changes of control, acquire other companies, engage in new lines of business, change business locations, make certain investments, pay dividends, make any payments on any subordinated debt, transfer or dispose of assets, amend certain material agreements, and enter into various specified transactions. We, therefore, may not be able to engage in any of the foregoing transactions unless we obtain the consent of our lender or prepay the outstanding amount under the credit facility. The credit facility also contains certain financial covenants and financial reporting requirements. Our obligations under the credit facility are secured by all of our property, with certain exceptions. We may not be able to generate sufficient cash flow or sales to meet the financial covenants or pay the principal and interest under the credit facility. Furthermore, our future working capital, borrowings, or equity financing could be unavailable to repay or refinance the amounts outstanding under the credit facility. In the event of a liquidation, our lender would be repaid all outstanding principal and interest prior to distribution of assets to unsecured creditors, and the holders of our Class A and Class B common stock would receive a portion of any liquidation proceeds only if all of our creditors, including our lender, were first repaid in full.

We face exposure to foreign currency exchange rate fluctuations, and such fluctuations could adversely affect our business, results of operations and financial condition.

As our international operations expand, our exposure to the effects of fluctuations in currency exchange rates grows. While we have primarily transacted with customers and business partners in U.S. dollars, we have transacted with customers in Japan in Japanese Yen, and expect to significantly expand the number of transactions with customers that are denominated in foreign currencies in the future as we expand our business internationally. We incur expenses for some of our network service provider costs outside of the United States in local currencies and for employee compensation and other operating expenses at our non-U.S. locations in the local currency for such locations. Fluctuations in the exchange rates between the U.S. dollar and other currencies could result in an increase to the U.S. dollar equivalent of such expenses.

In addition, our international subsidiaries maintain net assets that are denominated in currencies other than the functional operating currencies of these entities. As we continue to expand our international operations, we become more exposed to the effects of fluctuations in currency exchange rates. Accordingly, changes in the value of foreign currencies relative to the U.S. dollar can affect our results of operations due to transactional and translational remeasurements. As a result of such foreign currency exchange rate fluctuations, it could be more difficult to detect underlying trends in our business and results of operations. In addition, to the extent that fluctuations in currency exchange rates cause our results of operations to differ from our expectations or the expectations of our investors and securities analysts who follow our stock, the trading price of our Class A common stock could be adversely affected.

We do not currently maintain a program to hedge transactional exposures in foreign currencies. However, in the future, we may use derivative instruments, such as foreign currency forward and option contracts, to hedge certain exposures to fluctuations in foreign currency exchange rates. The use of such hedging activities may not offset any or more than a portion of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place. Moreover, the use of hedging instruments may introduce additional risks if we are unable to structure effective hedges with such instruments.

Our ability to use our net operating losses to offset future taxable income may be subject to certain limitations.

As of December 31, 2016, we had federal and state net operating loss carryforwards, or NOLs, of $104.0 million and $88.7 million, respectively, due to prior period losses. In general, under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, a corporation that undergoes an "ownership change" (generally defined as a greater than 50-percentage-point cumulative change (by value) in the equity ownership of certain stockholders over a rolling three-year period) is subject to limitations on its ability to utilize its pre-change NOLs to offset post-change taxable income. Our existing NOLs may be subject to limitations arising from previous ownership changes, and if we undergo an ownership change in the future, our ability to utilize NOLs could be further limited by Section 382 of the Code. Future changes in our stock ownership, some of which may be outside of our control, could result in an ownership change under Section 382 of the Code. There is also a risk that due to regulatory changes, such as suspensions on the use of NOLs, or other unforeseen reasons, our existing NOLs could expire or otherwise be unavailable to offset future income tax liabilities. For these reasons, we may not be able to realize a tax benefit from the use of our NOLs, even if we attain profitability.

If our estimates or judgments relating to our critical accounting policies prove to be incorrect, our results of operations could be adversely affected.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations." The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities and equity, and the amount of revenue and expenses that are not readily apparent from other sources. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to revenue recognition, capitalized internal-use software costs, other non-income taxes, business combination and valuation of goodwill and purchased intangible assets and stock-based compensation. Our results of operations may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our results of operations to fall below the expectations of securities analysts and investors, resulting in a decline in the trading price of our Class A common stock.

Changes in financial accounting standards or practices may cause adverse, unexpected financial reporting fluctuations and affect our results of operations.

A change in accounting standards or practices may have a significant effect on our results of operations and may even affect our reporting of transactions completed before the change is effective. New accounting pronouncements and varying interpretations of accounting pronouncements have occurred and may occur in the future. Changes to existing rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business.

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 Exchange Act, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and the rules and regulations of the applicable 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. Our disclosure controls and other procedures 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, and we continue to evaluate how to improve controls. 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 and 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 results of operations 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 periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness 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 Class A 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 and are therefore not required to make a formal assessment of the effectiveness of our internal control over financial reporting for that purpose. As a public company, we are required to provide an annual management report on the effectiveness of our internal control over financial reporting commencing with our second Annual Report on Form 10-K.

Our independent registered public accounting firm is not required to formally attest to the effectiveness of our internal control over financial reporting until after we are no longer an "emerging growth company" as defined in 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, results of operations and financial condition and could cause a decline in the trading price of our Class A common stock.

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

We review our intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. As of December 31, 2016, we carried a net $12.1 million of goodwill and intangible assets related to acquired businesses. 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 charges may adversely affect our results of operations.

We are an "emerging growth company" and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our Class A common stock less attractive to investors.

We are an "emerging growth company," as defined in the JOBS Act, and take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies," including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, 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 may take advantage of these exemptions for so long as we are an "emerging growth company." We cannot predict if investors will find our Class A common stock less attractive because we will rely on these exemptions. If some investors find our Class A common stock less attractive as a result, there may be a less active trading market for our Class A common stock and the trading price of our Class A common stock may be more volatile.

Our business is subject to the risks of earthquakes, fire, floods and other natural catastrophic events, and to interruption by man-made problems such as power disruptions, computer viruses, data security breaches or terrorism.

Our corporate headquarters are located in the San Francisco Bay Area, a region known for seismic activity. A significant natural disaster, such as an earthquake, fire or a flood, occurring at our headquarters, at one of our other facilities or where a business partner is located could adversely affect our business, results of operations and financial condition. Further, if a natural disaster or man-made problem were to affect our network service providers or Internet service providers, this could adversely affect the ability of our customers to use our products and platform. In addition, natural disasters and acts of terrorism could cause disruptions in our or our customers' businesses, national economies or the world economy as a whole. We also rely on our network and third-party infrastructure and enterprise applications and internal technology systems for our engineering, sales and marketing and operations activities. Although we maintain incident management and disaster response plans, in the event of a major disruption caused by a natural disaster or man-made problem, we may be unable to continue our operations and may endure system interruptions, reputational harm, delays in our development activities, lengthy interruptions in service, breaches of data security and loss of critical data, any of which could adversely affect our business, results of operations and financial condition.

In addition, computer malware, viruses and computer hacking, fraudulent use attempts and phishing attacks have become more prevalent in our industry, have occurred on our platform in the past and may occur on our platform in the future. Though it is difficult to determine what, if any, harm may directly result from any specific interruption or attack, any failure to maintain performance, reliability, security and availability of our products and technical infrastructure to the satisfaction of our users may harm our reputation and our ability to retain existing users and attract new users.

Risks Related to Ownership of Our Class A Common Stock

The trading price of our Class A common stock has been volatile and may continue to be volatile, and you could lose all or part of your investment.

Prior to our initial public offering, there was no public market for shares of our Class A common stock. On June 23, 2016, we sold shares of our Class A common stock to the public at $15.00 per share. From June 23, 2016, the date that our Class A common stock started trading on the New York Stock Exchange, through January 31, 2017, the trading price of our Class A common stock has ranged from $23.66 per share to $70.96 per share. The trading price of our Class A common stock may continue to fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- price and volume fluctuations in the overall stock market from time to time;
- volatility in the trading 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 Class A common stock by us or our stockholders;
- 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 results of operations or fluctuations in our results of operations;
- 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, products, services or technologies us or our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidelines, interpretations or principles;
- any significant change in our management; and
- general economic conditions and slow or negative growth of our markets.

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

Substantial future sales of shares of our Class A common stock could cause the market price of our Class A common stock to decline.

The market price of our Class A common stock could decline as a result of substantial sales of our Class A common stock, particularly sales by our directors, executive officers and significant stockholders, or the perception in the market that holders of a large number of shares intend to sell their shares.

Additionally, the shares of Class A common stock subject to outstanding options and restricted stock unit awards under our equity incentive plans and the shares reserved for future issuance under our equity incentive plans will become eligible for sale in the public market upon issuance. Certain holders of our Class A common stock have rights, subject to some conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for our stockholders or ourselves.

The dual class structure of our common stock has the effect of concentrating voting control with those stockholders who held our capital stock prior to the completion of our initial public offering, including our directors, executive officers and significant stockholders and their respective affiliates who held in the aggregate 83.9% of the voting power of our capital stock as of December 31, 2016. This limits or precludes your ability to influence corporate matters, including the election of directors, amendments of our organizational documents and any merger, consolidation, sale of all or substantially all of our assets, or other major corporate transaction requiring stockholder approval.

Our Class B common stock has 10 votes per share, and our Class A common stock has one vote per share. As of December 31, 2016, our directors, executive officers and holders of more than 5% of our common stock, and their respective affiliates, hold in the aggregate 83.9% of the voting power of our capital stock. Because of the 10-to-one voting ratio between our Class B common stock and Class A common stock, the holders of our Class B common stock collectively will continue to control a majority of the combined voting power of our common stock and therefore be able to control all matters submitted to our stockholders for approval until the earlier of (i) June 22, 2023, or (ii) the date the holders of two-thirds of our Class B common stock elect to convert the Class B common stock to Class A common stock. This concentrated control limits or preclude your ability to influence corporate matters for the foreseeable future, including the election of directors, amendments of our organizational documents, and any merger, consolidation, sale of all or substantially all of our assets, or other major corporate transaction requiring stockholder approval. In addition, this may prevent or discourage unsolicited acquisition proposals or offers for our capital stock that you may feel are in your best interest as one of our stockholders.

Future transfers by holders of Class B common stock will generally result in those shares converting to Class A common stock, subject to limited exceptions, such as certain transfers effected for estate planning purposes. The conversion of Class B common stock to Class A common stock will have the effect, over time, of increasing the relative voting power of those holders of Class B common stock who retain their shares in the long term.

If securities or industry analysts cease publishing research or reports about us, our business or our market, or if they change their recommendations regarding our Class A common stock adversely, the trading price of our Class A common stock and trading volume could decline.

The trading market for our Class A common stock is influenced by the research and reports that securities or industry analysts may publish about us, our business, our market or our competitors. If any of the analysts who cover us change their recommendation regarding our Class A common stock adversely, or provide more favorable relative recommendations about our competitors, the trading price of our Class A common stock would likely decline. If any analyst who covers 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 trading price of our Class A common stock or trading volume to decline.

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:

- 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 Class A and Class B 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;
- providing for a dual class common stock structure in which holders of our Class B common stock have the ability to control the outcome of matters requiring stockholder approval, even if they own significantly less than a majority of the outstanding shares of our Class A and Class B common stock, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or its assets;
- providing that our board of directors is classified into three classes of directors with staggered three-year terms;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors; and
- controlling the procedures for the conduct and scheduling of board of directors and stockholder meetings.

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

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

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

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 Class A 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 Class A common stock. In addition, our credit facility contains restrictions on our ability to pay dividends.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

In January 2016, we entered into a lease agreement, as subsequently amended, for approximately 90,000 square feet of new office space at 375 Beale Street in San Francisco that housed our principal executive office as of December 31, 2016. This office space replaced our existing principal executive office at 645 Harrison Street in San Francisco, for which the lease expired in January 2017.

The term of the 375 Beale Street lease is approximately 96 months following the commencement in October 2016, and the lease payments range from $0.4 million per month in the first 60 months to $0.5 million per month thereafter. We secured our lease obligation with a $7.4 million letter of credit, which we designated as restricted cash on our balance sheet as of December 31, 2016. We have a maximum $8.3 million of tenant improvement allowance available under this lease, of which $2.6 million was collected as of December 31, 2016.

In addition to our headquarters, we lease space in Mountain View, California, Tallinn, Estonia, Bogota, Colombia, Madrid, Spain, and Malmo, Sweden as additional research and development offices. We also lease space for additional sales and marketing offices in the following cities: New York, Dublin, London, Munich, Hong Kong and Singapore. Our Dublin office is our international headquarters.

We lease all of our facilities and do not own any real property. We intend to procure additional space in the future as we continue to add employees and expand geographically. We believe our facilities are adequate and suitable for our current needs and that, should it be needed, suitable additional or alternative space will be available to accommodate our operations.

Item 3. ***Legal Proceedings***

On April 30, 2015, Telesign Corporation, or Telesign, filed a lawsuit against us in the United States District Court, Central District of California ("Telesign I"). Telesign alleges that we are infringing three U.S. patents that it holds: U.S. Patent No. 8,462,920 ("'920"), U.S. Patent No. 8,687,038 ("'038") and U.S. Patent No. 7,945,034 ("'034"). The patent infringement allegations in the lawsuit relate to our Programmable Authentication products, our two-factor authentication use case and an API tool to find information about a phone number. We have petitioned the U.S. Patent and Trademark Office for *inter partes* review of the patents at issue. On March 9, 2016, the District Court stayed the court case pending the resolution of those proceedings. On June 28, 2016, the Patent and Trademark Office instituted the *inter partes* review of the '034 patent, briefing on which has now begun, including Telesign's contingent motion to amend the '034 patent. On July 8, 2016, the Patent and Trademark Office denied our petition for *inter partes* review of the '920 and '038 patents. We subsequently petitioned for rehearing on this decision, and the request for rehearing was fully briefed by both parties on October 11, 2016. On July 20, 2016, Telesign applied to the court to lift the stay on Telesign I. We opposed the request, and on September 15, 2016, the court denied the request to lift the stay on Telesign I. On November 15, 2016, the Patent and Trademark Office denied our request for rehearing on the denied petitions for *inter partes* review. On December 20, 2016, we filed a reply to Telesign's

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opposition to the ‘034 *inter partes* review and simultaneously filed an opposition to Telesign’s motion to amend the ‘034 patent. On January 23, 2017, Telesign filed its reply to our opposition to the motion to amend. The hearing on the ‘034 *inter partes* review is scheduled for March 2017.

On March 28, 2016, Telesign filed a second lawsuit against us in the United States District Court, Central District of California (“Telesign II”), alleging infringement of U.S. Patent No. 9,300,792 (“‘792”) held by Telesign. The ‘792 patent is in the same patent family as the ‘920 and ‘038 patents asserted in Telesign I, and the infringement allegations in Telesign II relate to our Programmable Authentication products and our two-factor authentication use case. On May 23, 2016, we moved to dismiss the complaint in Telesign II. On August 3, 2016, the United States District Court, Central District of California, issued an order granting Twilio’s motion to dismiss Telesign’s complaint with leave to amend. Telesign filed an amended complaint on September 2, 2016 and we moved to dismiss the amended complaint on September 16, 2016. On November 7, 2016, our motion to dismiss was denied, and we filed our answer to the first amended complaint on November 21, 2016. With respect to each of the patents asserted in Telesign I and Telesign II, the complaints seek, among other things, to enjoin us from allegedly infringing the patents along with damages for lost profits.

On December 1, 2016, we filed a patent infringement lawsuit against Telesign in the United States District Court, Northern District of California, alleging indirect infringement of Unites States Patent No. 8,306,021, United States Patent No. 8,837,465, United States Patent No. 8,755,376, United States Patent No. 8,736,051, United States Patent No. 8,737,962, United States Patent No. 9,270,833, and United States Patent No. 9,226,217. Telesign filed a motion to dismiss the complaint on January 25, 2017.

On February 18, 2016, a putative class action complaint was filed in the Alameda County Superior Court in California, entitled Angela Flowers v. Twilio Inc. The complaint alleges that our products permit the interception, recording and disclosure of communications at a customer’s request and are in violation of the California Invasion of Privacy Act. The complaint seeks injunctive relief as well as monetary damages. On May 27, 2016, we filed a demurrer to the complaint. On August 2, 2016, the court issued an order denying the demurrer in part and granted it in part, with leave to amend by August 18, 2016 to address any claims under California’s Unfair Competition Law. The plaintiff opted not to amend the complaint. Discovery has already begun, and will continue until August 2017, when the plaintiff must file their motion for class certification.

We intend to vigorously defend these lawsuits and believe we have meritorious defenses to each. However, litigation is inherently uncertain, and any judgment or injunctive relief entered against us or any adverse settlement could negatively affect our business, results of operations and financial condition.

In addition to the litigation discussed above, from time to time, we may be subject to legal actions and claims in the ordinary course of business. We have received, and may in the future continue to receive, claims from third parties asserting, among other things, infringement of their intellectual property rights. Future litigation may be necessary to defend ourselves, our partners and our customers by determining the scope, enforceability and validity of third-party proprietary rights, or to establish our proprietary rights. The results of any current or future litigation cannot be predicted with certainty, and regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors.

Item 4. ***Mine Safety Disclosures.***

Not applicable.

PART II

Item 5. ***Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

MARKET PRICE OF OUR CLASS A COMMON STOCK

Our Class A common stock has been listed on the New York Stock Exchange under the symbol "TWLO" since June 23, 2016. Prior to that date, there was no public trading market for our Class A common stock. The following table sets forth for the periods indicated the high and low sale prices per share of our Class A common stock as reported on the New York Stock Exchange:

	Low	High
Fiscal Year 2016		
Second Quarter (from June 23, 2016)	$23.66	$41.89
Third Quarter	$33.07	$70.96
Fourth Quarter	$28.37	$66.64

As of February 14, 2017, we had 190 holders of record of our Class A and Class B common stock. The actual number of stockholders is greater than this number of record holders and includes stockholders who are beneficial owners but whose shares are held in street name by brokers and other nominees.

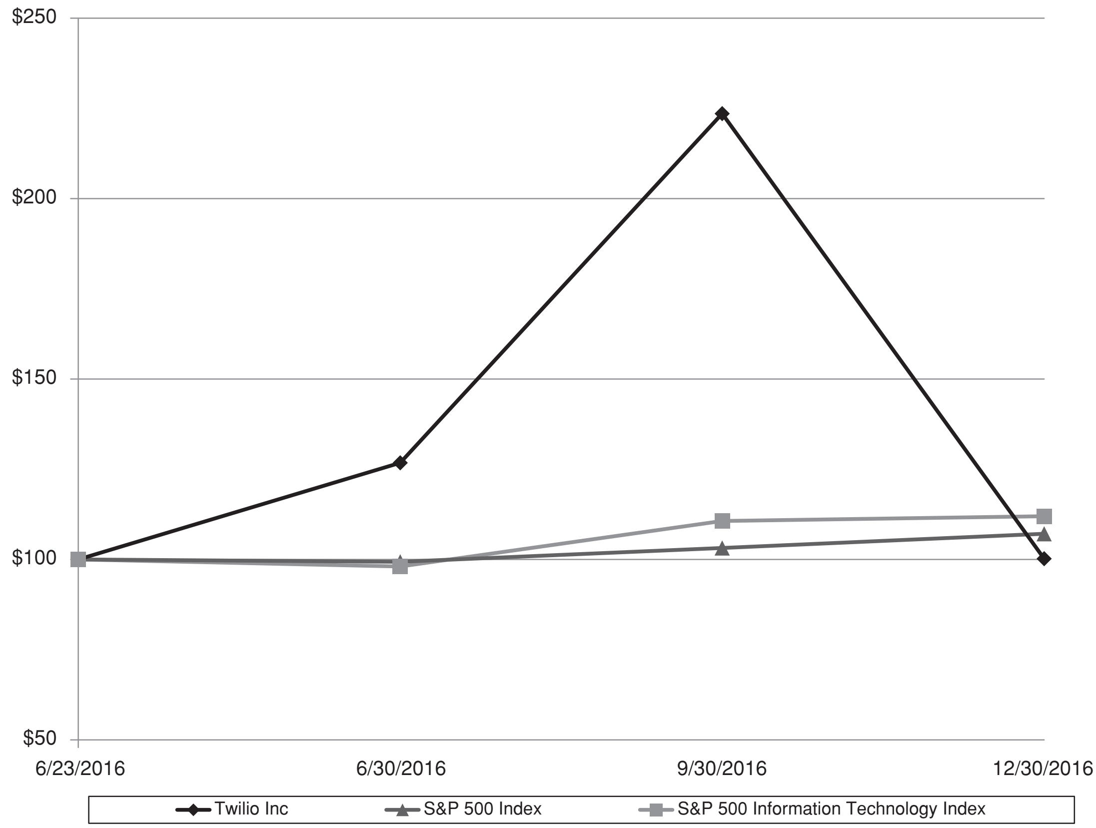
DIVIDEND POLICY

We have never declared or paid any cash dividends on our capital stock. We intend to retain any future earnings and do not expect to pay any dividends in the foreseeable future. In addition, the terms of our credit facility contain restrictions on our ability to declare and pay cash dividends on our capital stock.

STOCK PERFORMANCE GRAPH

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

We have presented below the cumulative total return to our stockholders between June 23, 2016 (the date our Class A common stock commenced trading on the NYSE) through December 31, 2016 in comparison to the NYSE Composite Index and Standard & Poor Systems Software Index. All values assume a $100 initial investment and data for the NYSE Composite Index and Standard & Poor Systems Software Index assume reinvestment of dividends. The comparisons are based on historical data and are not indicative of, nor intended to forecast, the future performance of our Class A common stock.



Securities Authorized for Issuance under Equity Compensation Plans

The information required by this item with respect to our equity compensation plans is incorporated by reference to our Proxy Statement for the 2017 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days of the fiscal year ended December 31, 2016.

Recent Sales of Unregistered Securities and Use of Proceeds from Registered Securities

(a) Sales of Unregistered Securities

From January 1, 2016 through December 31, 2016, we issued and sold to our employees, consultants and other service providers an aggregate of unregistered shares as follows: (a) 2,294,652 shares of common stock upon the exercise of options under our 2008 Stock Option Plan, or our 2008 Plan, at exercise prices ranging from $0.09 to $11.50 per share, for an aggregate exercise price of $9.1 million; and (b) 41,309 shares of common stock upon vesting of restricted stock units under our 2008 Plan with a total market value of $1.5 million.

(b) Use of Proceeds

In June 2016, we closed our initial public offering ("IPO"), in which we sold 11,500,000 shares of Class A common stock at a price to the public of $15.00 per share, including shares sold in connection with the exercise of the underwriters' option to purchase additional shares. The offer and sale of all of the shares in the IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-211634), which was declared effective by the SEC on June 22, 2016. We raised $155.5 million in net proceeds after deducting underwriting discounts and commissions of $12.1 million and offering expenses of $4.9 million. No payments were made by us to directors, officers or persons owning 10 percent or more of our capital stock or to their associates, or to our affiliates, other than payments in the ordinary course of business to officers for salaries. There has been no material change in the planned use of proceeds from our IPO as described in our final prospectus filed with the SEC on June 23, 2016 pursuant to Rule 424(b). We invested the funds received in accordance with our board-approved investment policy, which provides for investments in obligations of the U.S. government, money market instruments, registered money market funds and corporate bonds. The managing underwriters of our IPO were Goldman, Sachs & Co. and J.P. Morgan Securities LLC.

In October 2016, we closed our follow-on public offering, in which we sold 1,691,222 shares of Class A common stock at a price to the public of $40.00 per share, including shares sold in connection with the exercise of the underwriters' option to purchase additional shares. The offer and sale of all of the shares in the follow-on offering were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-214034), which was declared effective by the SEC on October 20, 2016. We raised $64.4 million in net proceeds after deducting underwriting discounts and commissions and offering expenses paid and payable by us. No payments were made by us to directors, officers or persons owning 10 percent or more of our capital stock or to their associates, or to our affiliates, other than payments in the ordinary course of business to officers for salaries. There has been no material change in the planned use of proceeds from our follow-on offering as described in our final prospectus filed with the SEC on October 21, 2016 pursuant to Rule 424(b). We invested the funds received in accordance with our board-approved investment policy, which provides for investments in obligations of the U.S. government, money market instruments, registered money market funds and corporate bonds. The managing underwriters of our follow-on offering were Goldman, Sachs & Co. and J.P. Morgan Securities LLC.

(c) Issuer Purchases of Equity Securities

None.

Item 6. *Selected Financial and Other Data*

We have derived the selected consolidated statements of operations data for the years ended December 31, 2016, 2015 and 2014 and the Balance Sheet data as of December 31, 2016 and 2015 from our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of the results that may be expected in the future. The following selected consolidated financial and other data should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", and our consolidated financial statements and the related notes appearing in Item 8, "Financial Statements and Supplementary Data", of this Annual Report on Form 10-K to fully understand factors that may affect the comparability of the information presented below.

	Year Ended December 31,		
	2016	2015	2014
	(In thousands, except share, per share and customer data)		
Consolidated Statement of Operations Data:			
Revenue	$ 277,335	$ 166,919	$ 88,846
Cost of revenue[1][2]	120,520	74,454	41,423
Gross profit	156,815	92,465	47,423
Operating expenses:			
Research and development[1][2]	77,926	42,559	21,824
Sales and marketing[1]	65,267	49,308	33,322
General and administrative[1][2]	51,077	35,991	18,960
Charitable contribution	3,860	—	—
Total operating expenses	198,130	127,858	74,106
Loss from operations	(41,315)	(35,393)	(26,683)
Other income (expenses), net	317	11	(62)
Loss before provision for income taxes	(40,998)	(35,382)	(26,745)
Provision for income taxes	(326)	(122)	(13)
Net loss	(41,324)	(35,504)	(26,758)
Deemed dividend to investors in relation to tender offer	—	(3,392)	—
Net loss attributable to common stockholders	$ (41,324)	$ (38,896)	$ (26,758)
Net loss per share attributable to common stockholders, basic and diluted	$ (0.78)	$ (2.19)	$ (1.58)
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted	53,116,675	17,746,526	16,900,124
Key Business Metrics:			
Number of Active Customer Accounts[3] (*as of end date of period*)	36,606	25,347	16,631
Base Revenue[4]	245,548	$ 136,851	$ 75,697
Base Revenue Growth Rate	*79%*	*81%*	*81%*
Dollar-Based Net Expansion Rate[5]	161%	155%	153%

(1) Includes stock-based compensation expense as follows:

	Year Ended December 31,		
	2016	2015	2014
	(In thousands)		
Cost of revenue	$ 291	$ 65	$ 39
Research and development	12,946	4,046	1,577
Sales and marketing	4,972	2,389	1,335
General and administrative	6,016	2,377	1,027
Total	$24,225	$8,877	$3,978

(2) Includes amortization of acquired intangibles as follows:

	Year Ended December 31,		
	2016	2015	2014
	(In thousands)		
Cost of revenue	$619	$239	$—
Research and development	151	130	—
General and administrative	110	95	—
Total	$880	$464	$—

(3) See the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Business Metrics—Number of Active Customer Accounts."

(4) See the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Business Metrics—Base Revenue."

(5) See the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Business Metrics—Dollar-Based Net Expansion Rate."

	As of December 31,	
	2016	2015
	(In thousands)	
Consolidated Balance Sheet Data:		
Cash and cash equivalents	$305,665	$108,835
Working capital	279,676	96,032
Property and equipment, net	37,552	14,058
Total assets	412,694	157,516
Total stockholders' equity	329,447	116,625

Non-GAAP Financial Measures

We use the following non-GAAP financial information, collectively, to evaluate our ongoing operations and for internal planning and forecasting purposes. We believe that non-GAAP financial information, when taken collectively, may be helpful to investors because it provides consistency and comparability with past financial performance, facilitates period-to-period comparisons of results of operations, and assists in comparisons with other companies, many of which use similar non-GAAP financial information to supplement their GAAP results. Non-GAAP financial information is presented for supplemental informational purposes only, and should not be considered a substitute for financial information presented in accordance with generally accepted accounting principles, and may be different from similarly-titled non-GAAP measures used by other companies. Whenever we use a non-GAAP financial measure, a reconciliation is provided to the most closely applicable financial measure stated in accordance with generally accepted accounting principles. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measures.

Non-GAAP Gross Profit and Non-GAAP Gross Margin. We define non-GAAP gross profit and non-GAAP gross margin as GAAP gross profit and GAAP gross margin, respectively, adjusted to exclude stock-based compensation and amortization of acquired intangibles.

	Year Ended December 31,	
	2016	2015
	(In thousands)	
Reconciliation:		
Gross profit	$156,815	$92,465
Non-GAAP adjustments:		
Stock-based compensation	291	65
Amortization of acquired intangible assets	619	239
Non-GAAP gross profit	$157,725	$92,769
Non-GAAP gross margin	57%	56%

Non-GAAP Operating Expenses. We define non-GAAP operating expenses (including categories of operating expenses) as GAAP operating expenses (and categories of operating expenses) adjusted to exclude, as applicable, stock-based compensation, amortization of acquired intangibles, expenses related to stock repurchases, acquisition-related expenses, release of tax liability upon obligation settlement, charitable contribution and payroll taxes related to stock-based compensation.

	Year Ended December 31,	
	2016	2015
	(In thousands)	
Reconciliation:		
Operating expenses	$198,130	$127,858
Non-GAAP adjustments:		
Stock-based compensation	(23,934)	(8,812)
Amortization of acquired intangible assets	(261)	(225)
Stock repurchase	—	(1,965)
Acquisition-related expenses	(499)	(1,165)
Release of tax liability upon obligation settlement	805	—
Charitable contribution	(3,860)	—
Payroll taxes related to stock-based compensation	(434)	—
Non-GAAP operating expenses	$169,947	$115,691

Non-GAAP Operating Loss and Non-GAAP Operating Margin. We define non-GAAP operating loss and non-GAAP operating margin as GAAP operating loss and GAAP operating margin, respectively, adjusted to exclude stock-based compensation, amortization of acquired intangibles, expenses related to stock repurchases, acquisition-related expenses, release of tax liability upon obligation settlement, charitable contribution and payroll taxes related to stock-based compensation.

	Year Ended December 31,	
	2016	2015
	(In thousands)	
Reconciliation:		
Loss from operations	$(41,315)	$(35,393)
Non-GAAP adjustments:		
Stock-based compensation	24,225	8,877
Amortization of acquired intangible assets	880	464
Stock repurchase	—	1,965
Acquisition-related expenses	499	1,165
Release of tax liability upon obligation settlement	(805)	—
Charitable contribution	3,860	—
Payroll taxes related to stock-based compensation	434	—
Non-GAAP loss from operations	$(12,222)	$(22,922)
Non-GAAP operating margin	(4)%	(14)%

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K. In addition to historical financial information, the following discussion contains forward-looking statements that is based upon current plans, expectations and beliefs that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" in this Annual Report on Form 10-K. Our fiscal year ends on December 31.

Overview

We are the leader in the Cloud Communications Platform category. We enable developers to build, scale and operate real-time communications within software applications.

Our developer-first platform approach consists of three things: our Programmable Communications Cloud, Super Network and Business Model for Innovators. Our Programmable Communications Cloud software enables developers to embed voice, messaging, video and authentication capabilities into their applications via our simple-to-use Application Programming Interfaces, or APIs. We do not aim to provide complete business solutions, rather our Programmable Communications Cloud offers flexible building blocks that enable our customers to build what they need. The Super Network is our software layer that allows our customers' software to communicate with connected devices globally. It interconnects with communications networks around the world and continually analyzes data to optimize the quality and cost of communications that flow through our platform. Our Business Model for Innovators empowers developers by reducing friction and upfront costs, encouraging experimentation, and enabling developers to grow as customers as their ideas succeed.

As of December 31, 2016, our customers' applications that are embedded with our products could reach users via voice, messaging and video in nearly every country in the world, and our platform offered customers local telephone numbers in over 50 countries and text-to-speech functionality in 26 languages. We support our global business through 26 cloud data centers in eight regions around the world and have developed contractual relationships with network service providers globally.

Our business model is primarily focused on reaching and serving the needs of developers. We established and maintain our leadership position by engaging directly with, and cultivating, our developer community, which has led to the rapid adoption of our platform. We reach developers through community events and conferences, including our SIGNAL developer conference, to demonstrate how every developer can create differentiated applications incorporating communications using our products.

Once developers are introduced to our platform, we provide them with a low-friction trial experience. By accessing our easy-to-configure APIs, extensive self-service documentation and customer support team, developers build our products into their applications and then test such applications through free trials. Once they have decided to use our products beyond the initial free trial period, customers provide their credit card information and only pay for the actual usage of our products. Historically, we have acquired the substantial majority of our customers through this self-service model. As customers expand their usage of our platform, our relationships with them often evolve to include business leaders within their organizations. Once our customers reach a certain spending level with us, we support them with account managers or customer success advocates within our sales organization to ensure their satisfaction and expand their usage of our products.

When potential customers do not have the available developer resources to build their own applications, we refer them to our network of Solution Partners, who embed our products in their solutions, such as software for contact centers and sales force and marketing automation that they sell to other businesses.

We recently began to supplement our self-service model with a sales effort aimed at engaging larger potential customers, strategic leads and existing customers through an enterprise sales approach. We have supplemented this sales effort with a new product launch, Twilio Enterprise Plan, which provides new capabilities for advanced security, access management and granular administration. Our sales organization targets technical and business leaders who are seeking to leverage software to drive competitive differentiation. As we educate these leaders on the benefits of developing applications that incorporate our products to differentiate their business, they often consult with their developers regarding implementation. We believe that developers are often advocates for our products as a result of our developer-focused approach. Our sales organization includes sales development, inside sales, field sales and sales engineering personnel.

We generate the substantial majority of our revenue from customers based on their usage of our software products that they have incorporated into their applications. In addition, customers typically purchase one or more telephone numbers from us, for which we charge a monthly flat fee per number. Some customers also choose to purchase various levels of premium customer support for a monthly fee. Customers that register in our self-service model typically pay up-front via credit card and draw down their balance as they purchase or use our products. Most of our customers draw down their balance in the same month they pay up front and, as a result, our deferred revenue at any particular time is not a meaningful indicator of future revenue. As our customers' usage grows, some of our customers enter into contracts and are invoiced monthly in arrears. Many of these customer contracts have terms of 12 months and typically include some level of minimum revenue commitment. Most customers with minimum revenue commitment contracts generate a significant amount of revenue in excess of their minimum revenue commitment in any period. Historically, the aggregate minimum commitment revenue from customers with which we have contracts has constituted a minority of our revenue in any period, and we expect this to continue in the future.

Our developer-focused products are delivered to customers and users through our Super Network, which uses software to optimize communications on our platform. We interconnect with communications networks globally to deliver our products, and therefore we have arrangements with network service providers in many regions throughout the world. Historically, a substantial majority of our cost of revenue has been network service provider fees. We continue to optimize our network service provider coverage and connectivity through continuous improvements in routing and sourcing in order to lower the usage expenses we incur for network service provider fees. As we benefit from our platform optimization efforts, we sometimes pass these savings on to customers in the form of lower usage prices on our products in an effort to drive increased usage and expand the reach and scale of our platform. In the near term, we intend to operate our business to expand the reach and scale of our platform and to grow our revenue, rather than to maximize our gross margins.

We have achieved significant growth in recent periods. For the years ended December 31, 2016, 2015 and 2014, our revenue was $277.3 million, $166.9 million and $88.8 million, respectively. In 2016, 2015 and 2014, our 10 largest Active Customer Accounts generated an aggregate of 30%, 32% and 28%, respectively. For the years ended December 31, 2016, 2015 and 2014, among our 10 largest Active Customer Accounts we had three, two and one Variable Customer Accounts, respectively, representing 11%, 17% and 13%, respectively. For the years ended December 31, 2016, 2015 and 2014, our Base Revenue was $245.5 million, $136.9 million and $75.7 million, respectively. We incurred a net loss of $41.3 million, $35.5 million and $26.8 million for the years ended December 31, 2016, 2015 and 2014, respectively. See the section titled "—Key Business Metrics—Base Revenue" for a discussion of Base Revenue.

Initial Public Offering

In June 2016, we completed an initial public offering ("IPO") in which we sold 11,500,000 shares of our newly authorized Class A common stock, which included 1,500,000 shares sold pursuant to the exercise by the underwriters of an option to purchase additional shares, at the public offering price of $15.00 per share. We received net proceeds of $155.5 million, after deducting underwriting discounts and commissions and offering expenses paid by us, from the sale of our shares in the IPO. Immediately prior to the completion of the IPO, all shares of common stock then outstanding were reclassified as shares of Class B common stock and all shares of convertible preferred stock then outstanding were converted into 54,508,441 shares of common stock on a one-to-one basis, and then reclassified as shares of Class B common stock. See Note 12 to the consolidated financial statements included elsewhere in this Annual Report on Form 10-K for further discussion of Class A and B common stock.

Follow-on Public Offering

In October 2016, we completed a follow-on public offering in which we sold 1,691,222 shares of our Class A common stock, which included 1,050,000 shares sold pursuant to the exercise by the underwriters of an option to purchase additional shares, at a public offering price of $40.00 per share. In addition, another 6,358,778 shares of our Class A common stock were sold by our selling stockholders, which included 906,364 shares sold pursuant to the exercise of employee stock options by certain selling stockholders. We received aggregate proceeds of $64.4 million, after deducting underwriting discounts and commissions and estimated offering expenses paid and payable by us. Of the net proceeds we received in such offering, $3.9 million was reserved to fund and support the operations of Twilio.org, through which we donate and discount our products to nonprofits, who use our products to engage their audience, expand their reach and focus on making a meaningful change in the world, and the number of shares of our Class A common stock that was reserved for that purpose was reduced by 100,000. We did not receive any of the net proceeds from the sales of shares by the selling stockholders.

Key Business Metrics

	Year Ended December 31,		
	2016	2015	2014
Number of Active Customer Accounts (*as of end date of period*)	36,606	25,347	16,631
Base Revenue (*in thousands*)	$245,548	$136,851	$75,697
Base Revenue Growth Rate	*79%*	*81%*	*81%*
Dollar-Based Net Expansion Rate	161%	155%	153%

Number of Active Customer Accounts. We believe that the number of our Active Customer Accounts is an important indicator of the growth of our business, the market acceptance of our platform and future revenue trends. We define an Active Customer Account at the end of any period as an individual account, as identified by a unique account identifier, for which we have recognized at least $5 of revenue in the last month of the period. We believe that the use of our platform by our customers at or above the $5 per month threshold is a stronger indicator of potential future engagement than trial usage of our platform or usage at levels below $5 per month. A single organization may constitute multiple unique Active Customer Accounts if it has multiple account identifiers, each of which is treated as a separate Active Customer Account.

In the years ended December 31, 2016, 2015 and 2014, revenue from Active Customer Accounts represented over 99% of total revenue in each period.

Base Revenue. We monitor Base Revenue as one of the more reliable indicators of future revenue trends. Base Revenue consists of all revenue other than revenue from large Active Customer Accounts that have never entered into 12-month minimum revenue commitment contracts with us, which we refer to as Variable Customer Accounts. While almost all of our customer accounts exhibit some level of variability in the usage of our products, based on the experience of our management, we believe that Variable Customer Accounts are more likely to have significant fluctuations in usage of our products from period to period, and therefore that revenue from Variable Customer Accounts may also fluctuate significantly from period to period. This behavior is best evidenced by the decision of such customers not to enter into contracts with us that contain minimum revenue commitments, even though they may spend significant amounts on the use of our products and they may be foregoing more favorable terms often available to customers that enter into committed contracts with us. This variability adversely affects our ability to rely upon revenue from Variable Customer Accounts when analyzing expected trends in future revenue.

For historical periods through March 31, 2016, we defined a Variable Customer Account as an Active Customer Account that (i) had never signed a minimum revenue commitment contract with us for a term of at least 12 months and (ii) had met or exceeded 1% of our revenue in any quarter in the periods presented through March 31, 2016. To allow for consistent period-to-period comparisons, in the event a customer account qualified as a Variable Customer Account as of March 31, 2016, or a previously Variable Customer Account ceased to be an Active Customer Account as of such date, we included such customer account as a Variable Customer Account in all periods presented. For reporting periods starting with the three months ended June 30, 2016, we define a Variable Customer Account as a customer account that (a) has been categorized as a Variable Customer Account in any prior quarter, as well as (b) any new customer account that (i) is with a customer that has never signed a minimum revenue commitment contract with us for a term of at least 12 months and (ii) meets or exceeds 1% of our revenue in a quarter. Once a customer account is deemed to be a Variable Customer Account in any period, it remains a Variable Customer Account in subsequent periods unless such customer enters into a minimum revenue commitment contract with us for a term of at least 12 months.

In the years ended December 31, 2016, 2015 and 2014, we had eight, nine and ten Variable Customer Accounts, which represented 11%, 18% and 15%, respectively, of our total revenue.

Dollar-Based Net Expansion Rate. Our ability to drive growth and generate incremental revenue depends, in part, on our ability to maintain and grow our relationships with existing Active Customer Accounts and to increase their use of the platform. An important way in which we track our performance in this area is by measuring the Dollar-Based Net Expansion Rate for our Active Customer Accounts, other than our Variable Customer Accounts. Our Dollar-Based Net Expansion Rate increases when such Active Customer Accounts increase usage of a product, extend usage of a product to new applications or adopt a new product. Our Dollar-Based Net Expansion Rate decreases when such Active Customer Accounts cease or reduce usage of a product or when we lower usage prices on a product. As our customers grow their businesses and extend the use of our platform, they sometimes create multiple customer accounts with us for operational or other reasons. As such, for reporting periods starting with the three months ended December 31, 2016, when we identify a significant customer organization (defined as a single customer organization generating more than 1% of revenue in a quarterly reporting period) that has created a new Active Customer Account, this new Active Customer Account is tied to, and revenue from this new Active Customer Account is included with, the original Active Customer Account for the purposes of calculating this metric. We believe measuring our Dollar-Based Net Expansion Rate on revenue generated from our Active Customer Accounts, other than our Variable Customer Accounts, provides a more meaningful indication of the performance of our efforts to increase revenue from existing customers.

Our Dollar-Based Net Expansion Rate compares the revenue from Active Customer Accounts, other than Variable Customer Accounts, in a quarter to the same quarter in the prior year. To calculate the Dollar-Based Net Expansion Rate, we first identify the cohort of Active Customer Accounts, other than Variable Customer Accounts, that were Active Customer Accounts in the same quarter of the prior year. The Dollar-Based Net Expansion Rate is the quotient obtained by dividing the revenue generated from that cohort in a quarter, by the revenue generated from that same cohort in the corresponding quarter in the prior year. When we calculate Dollar-Based Net Expansion Rate for periods longer than one quarter, we use the average of the applicable quarterly Dollar-Based Net Expansion Rates for each of the quarters in such period.

Acquisitions

In November 2016, we acquired certain assets of Tikal Technologies S.L., a Spanish corporation, behind its Kurento Open Source Project, consisting of proprietary WebRTC media processing technologies, certain licenses, patents and trademarks and employee relationships behind the WebRTC technology. The purchase price consisted of $8.5 million in cash, of which $1.5 million was placed into an escrow to protect us against breaches of general representations, warranties, claims and tax compliance matters. The escrow is effective for 24 months and 10 days from the acquisition date and may be extended under certain circumstances.

Stock Repurchase

On August 21, 2015, we repurchased an aggregate of 365,916 shares of Series A preferred stock and Series B preferred stock from certain preferred stockholders, and repurchased an aggregate of 1,869,156 shares of common stock from certain current and former employees, for $22.8 million in cash, which transaction we refer to as the 2015 Repurchase. The 2015 Repurchase was conducted at a price in excess of the fair value of our common stock at the date of repurchase. No special rights or privileges were conveyed to the employees and former employees. However, not all employees were invited to participate in the 2015 Repurchase. We recorded a compensation expense in the amount of $2.0 million, which represented the excess of the common stock repurchase price above the fair value of the common stock on the date of repurchase. The excess of the preferred stock repurchase price above the carrying value of the preferred stock was recorded as a deemed dividend in the year ended December 31, 2015. We retired the shares repurchased in the 2015 Repurchase as of August 21, 2015.

Net Loss Carryforwards

At December 31, 2016, we had federal and state net operating loss carryforwards of approximately $104.0 million and $88.7 million, respectively, and federal and state tax credits of approximately $6.4 million and $5.4 million, respectively. If not utilized, the federal and state loss carryforwards will expire at various dates beginning in 2029 and 2027, respectively, and the federal tax credits will expire at various dates beginning in 2029. The state tax credits can be carried forward indefinitely. At present, we believe that it is more likely than not that the federal and state net operating loss and credit carryforwards will not be realized. Accordingly, a full valuation allowance has been established for these tax attributes, as well as the rest of the federal and state deferred tax assets.

Key Components of Statements of Operations

Revenue. We derive our revenue primarily from usage-based fees earned from customers using the software products within our Programmable Communications Cloud. These usage-based software products include our Programmable Voice, Programmable Messaging and the recently introduced Programmable Video products. Some examples of the usage-based fees for which we charge include minutes of call duration activity for our Programmable Voice products, number of text messages sent or received using our Programmable Messaging products and number of authentications for our Programmable Authentication product. In 2016, 2015 and 2014, we generated 83%, 79% and 75% of our revenue, respectively, from usage-based fees. We also earn monthly flat fees from certain fee-based products, such as telephone numbers and customer support. We do not generate any revenue directly from our Super Network or Business Model for Innovators.

Customers typically pay up-front via credit card in monthly prepaid amounts and draw down their balances as they purchase or use our products. As customers grow their usage of our products they automatically receive tiered usage discounts. Our larger customers often enter into contracts, for at least 12 months, that contain minimum revenue commitments, which may contain more favorable pricing. Customers on such contracts typically are invoiced monthly in arrears for products used.

Amounts that have been charged via credit card or invoiced are recorded in accounts receivable and in revenue or deferred revenue, depending on whether the revenue recognition criteria have been met. Given that our credit card prepayment amounts tend to be approximately equal to our credit card consumption amounts in each period, and that we do not have many invoiced customers on pre-payment contract terms, our deferred revenue at any particular time is not a meaningful indicator of future revenue.

We define U.S. revenue as revenue from customers with IP addresses at the time of registration in the United States, and we define international revenue as revenue from customers with IP addresses at the time of registration outside of the United States.

Cost of Revenue and Gross Margin. Cost of revenue consists primarily of fees paid to network service providers. Cost of revenue also includes cloud infrastructure fees, personnel costs, such as salaries and stock-based compensation for our customer support employees, and non-personnel costs, such as amortization of capitalized internal-use software development costs. Our arrangements with network service providers require us to pay fees based on the volume of phone calls initiated or text messages sent, as well as the number of telephone numbers acquired by us to service our customers. Our arrangements with our cloud infrastructure provider require us to pay fees based on our server capacity consumption.

Our gross margin has been and will continue to be affected by a number of factors, including the timing and extent of our investments in our operations, our ability to manage our network service provider and cloud infrastructure-related fees, the mix of U.S. revenue compared to international revenue, the timing of amortization of capitalized software development costs and the extent to which we periodically choose to pass on our cost savings from platform optimization efforts to our customers in the form of lower usage prices.

Operating Expenses. The most significant components of operating expenses are personnel costs, which consist of salaries, benefits, bonuses, stock-based compensation and compensation expenses related to stock repurchases from employees. We also incur other non-personnel costs related to our general overhead expenses. We expect that our operating costs will increase in absolute dollars.

Research and Development. Research and development expenses consist primarily of personnel costs, outsourced engineering services, cloud infrastructure fees for staging and development, amortization of capitalized internal-use software development costs and an allocation of our general overhead expenses. We capitalize the portion of our software development costs that meets the criteria for capitalization.

We continue to focus our research and development efforts on adding new features and products including new use cases, improving our platform and increasing the functionality of our existing products.

Sales and Marketing. Sales and marketing expenses consist primarily of personnel costs, including commissions for our sales employees. Sales and marketing expenses also include expenditures related to advertising, marketing, our brand awareness activities and developer evangelism, costs related to our SIGNAL developer conferences, credit card processing fees, professional services fees and an allocation of our general overhead expenses.

We focus our sales and marketing efforts on generating awareness of our company, platform and products through our developer evangelist team and self-service model, creating sales leads and establishing and promoting our brand, both domestically and internationally. We plan to continue investing in sales and marketing by increasing our sales and marketing headcount, supplementing our self-service model with an enterprise sales approach, expanding our sales channels, driving our go-to-market strategies, building our brand awareness and sponsoring additional marketing events.

General and Administrative. General and administrative expenses consist primarily of personnel costs for our accounting, finance, legal, human resources and administrative support personnel and executives. General and administrative expenses also include costs related to business acquisitions, legal and other professional services fees, sales and other taxes, depreciation and amortization and an allocation of our general overhead expenses. We expect that we will incur costs associated with supporting the growth of our business and to meet the increased compliance requirements associated with both our international expansion and our transition to, and operation as, a public company.

Our general and administrative expenses include a significant amount of sales and other taxes to which we are subject based on the manner we sell and deliver our products. Historically, we have not collected such taxes from our customers and have therefore recorded such taxes as general and administrative expenses. We expect that these expenses will decline in future years as we continue to implement our sales tax collection mechanisms and start collecting these taxes from our customers.

Provision for Income Taxes. Our provision for income taxes has not been historically significant to our business as we have incurred operating losses to date. Our provision for income taxes consists primarily of income taxes in certain foreign jurisdictions in which we conduct business.

Results of Operations

The following tables set forth our results of operations for the periods presented in dollars and as a percentage of our total revenue for those periods. The period-to-period comparisons of our historical results are not necessarily indicative of the results that may be expected in the future.

	Year Ended December 31, 2016	2015	2014
	(In thousands, except share and per share data)		
Consolidated Statements of Operations Data:			
Revenue	$ 277,335	$ 166,919	$ 88,846
Cost of revenue[1][2]	120,520	74,454	41,423
Gross profit	156,815	92,465	47,423
Operating expenses:			
Research and development[1][2]	77,926	42,559	21,824
Sales and marketing[1]	65,267	49,308	33,322
General and administrative[1][2]	51,077	35,991	18,960
Charitable contribution	3,860	—	—
Total operating expenses	198,130	127,858	74,106
Loss from operations	(41,315)	(35,393)	(26,683)
Other income (expenses), net	317	11	(62)
Loss before provision for income taxes	(40,998)	(35,382)	(26,745)
Provision for income taxes	(326)	(122)	(13)
Net loss	(41,324)	(35,504)	(26,758)
Deemed dividend to investors in relation to tender offer	—	(3,392)	—
Net loss attributable to common stockholders	$ (41,324)	$ (38,896)	$ (26,758)
Net loss per share attributable to common stockholders, basic and diluted	$ (0.78)	$ (2.19)	$ (1.58)
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted	53,116,675	17,746,526	16,900,124

(1) Includes stock-based compensation expense as follows:

	Year Ended December 31, 2016	2015	2014
	(In thousands)		
Cost of revenue	$ 291	$ 65	$ 39
Research and development	12,946	4,046	1,577
Sales and marketing	4,972	2,389	1,335
General and administrative	6,016	2,377	1,027
Total	$24,225	$8,877	$3,978

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(2) Includes amortization of acquired intangibles as follows:

	Year Ended December 31,		
	2016	2015	2014
	(In thousands)		
Cost of revenue	$619	$239	$—
Research and development	151	130	—
General and administrative	110	95	—
Total	$880	$464	$—

	Year Ended December 31,		
	2016	2015	2014
Consolidated Statements of Operations, as a percentage of revenue:**			
Revenue	100%	100%	100%
Cost of revenue	43	45	47
Gross profit	57	55	53
Operating expenses:			
Research and development	28	25	25
Sales and marketing	24	30	38
General and administrative	18	22	21
Charitable contribution	1	—	—
Total operating expenses	71	77	83
Loss from operations	(15)	(21)	(30)
Other income (expenses), net	*	*	*
Loss before provision for income taxes	(15)	(21)	(30)
Provision for income taxes	*	*	*
Net loss	(15)	(21)	(30)
Deemed dividend to investors in relation to tender offer	—	(2)	—
Net loss attributable to common stockholders	(15)%	(23)%	(30)%

* Less than 0.5% of revenue.

** Columns may not add up to 100% due to rounding.

Comparison of the Fiscal Years Ended December 31, 2016, 2015 and 2014

Revenue

	Year Ended December 31,			2015 to 2016 Change		2014 to 2015 Change	
	2016	2015	2014				
	(Dollars in thousands)						
Base revenue	$245,548	$136,851	$75,697	$108,697	79%	$61,154	81%
Variable revenue	31,787	30,068	13,149	1,719	6%	16,919	129%
Total revenue	$277,335	$166,919	$88,846	$110,416	66%	$78,073	88%

2016 Compared to 2015

In 2016, Base Revenue increased by $108.7 million, or 79%, compared to 2015, and represented 89% and 82% of total revenue in 2016 and 2015, respectively. This increase was primarily attributable to an increase in the usage of all our products, particularly our Programmable Messaging products and

Programmable Voice products, and the adoption of additional products by our existing customers. This increase was partially offset by pricing decreases that we have implemented over time for our customers in the form of lower usage prices in an effort to increase the reach and scale of our platform. The changes in usage and price in 2016 were reflected in our Dollar-Based Net Expansion Rate of 161%. The increase in usage was also attributable to a 44% increase in the number of Active Customer Accounts, from 25,347 as of December 31, 2015 to 36,606 as of December 31, 2016.

In 2016, Variable Revenue increased by $1.7 million, or 6%, compared to 2015, and represented 11% and 18% of total revenue in 2016 and 2015, respectively. This increase was primarily attributable to the increase in the usage of products by our existing Variable Customer Accounts, partially offset by the decrease in number of Variable Customer Accounts from nine to eight.

U.S. revenue and international revenue represented $233.9 million, or 84%, and $43.4 million, or 16%, respectively, of total revenue in 2016, compared to $143.1 million, or 86%, and $23.8 million, or 14%, respectively, of total revenue in 2015. The increase in international revenue in absolute dollars and as a percentage of total revenue was attributable to the growth in usage of our products, particularly our Programmable Messaging products and Programmable Voice products, by our existing international Active Customer Accounts and to a 61% increase in the number of international Active Customer Accounts, driven in part by our focus on expanding our sales to customers outside of the United States. We opened one office outside of the United States between December 31, 2015 and December 31, 2016.

2015 Compared to 2014

In 2015, Base Revenue increased by $61.2 million, or 81%, compared to 2014, and represented 82% and 85% of total revenue in 2015 and 2014, respectively. This increase was primarily attributable to an increase in the usage of all our products, particularly our Programmable Messaging products and Programmable Voice products, and the adoption of additional products by our existing customers. This increase was partially offset by pricing decreases that we have implemented over time for our customers in the form of lower usage prices in an effort to increase the reach and scale of our platform. The changes in usage and price in 2015 were reflected in our Dollar-Based Net Expansion Rate of 155%. The increase in usage was also attributable to a 52% increase in the number of Active Customer Accounts, from 16,631 as of December 31, 2014 to 25,347 as of December 31, 2015.

In 2015, Variable Revenue increased by $16.9 million, or 129%, compared to 2014, and represented 18% and 15% of total revenue in 2015 and 2014, respectively. This increase was primarily attributable to the increase in the usage of products by our existing Variable Customer Accounts.

U.S. revenue and international revenue represented $143.1 million, or 86%, and $23.8 million, or 14%, respectively, of total revenue in 2015, compared to $78.3 million, or 88%, and $10.6 million, or 12%, respectively, of total revenue in 2014. The increase in international revenue in absolute dollars and as a percentage of total revenue was attributable to the growth in usage of our products, particularly our Programmable Messaging products and Programmable Voice products, by our existing international Active Customer Accounts and to a 78% increase in the number of international Active Customer Accounts, driven in part by our focus on expanding our sales to customers outside of the United States. We opened five offices outside of the United States between December 31, 2014 and December 31, 2015.

Cost of Revenue and Gross Margin

	Year Ended December 31,			2015 to 2016 Change		2014 to 2015 Change	
	2016	2015	2014				
	(Dollars in thousands)						
Cost of revenue	$120,520	$74,454	$41,423	$46,066	62%	$33,031	80%
Gross margin	57%	55%	53%				

2016 Compared to 2015

In 2016, cost of revenue increased by $46.1 million, or 62%, compared to 2015. The increase in cost of revenue was primarily attributable to a $40.0 million increase in network service providers' costs, a $2.8 million increase in cloud infrastructure fees to support the growth in usage of our products and a $1.9 million increase in amortization expense for internal-use software.

In 2016, gross margin improved primarily as a result of cost savings from our continued platform optimization efforts, along with changes in our product and geographic mix.

2015 Compared to 2014

In 2015, cost of revenue increased by $33.0 million, or 80%, compared to 2014. The increase in cost of revenue was primarily attributable to a $28.6 million increase in network service providers' costs, a $2.6 million increase in cloud infrastructure fees to support the growth in usage of our products and a $1.2 million increase in amortization expense for internal-use software.

In 2015, gross margin improved primarily as a result of cost savings from our continued platform optimization efforts.

Operating Expenses

	Year Ended December 31,			2015 to 2016 Change		2014 to 2015 Change	
	2016	2015	2014				
	(Dollars in thousands)						
Research and development	$ 77,926	$ 42,559	$21,824	$35,367	83%	$20,735	95%
Sales and marketing	65,267	49,308	33,322	15,959	32%	15,986	48%
General and administrative	51,077	35,991	18,960	15,086	42%	17,031	90%
Charitable contribution	3,860	—	—	3,860	100%	—	—
Total operating expenses	$198,130	$127,858	$74,106	$70,272	55%	$53,752	73%

2016 Compared to 2015

In 2016, research and development expenses increased by $35.4 million, or 83%, compared to 2015. The increase was primarily attributable to a $27.3 million increase in personnel costs, net of a $4.4 million increase in capitalized software development costs, largely as a result of a 61% average increase of our research and development headcount, as we continued to focus on enhancing our existing products and introducing new products, as well as enhancing product management and other technical functions. The increase was also due in part to a $1.9 million increase related to the facilities rent expense in connection with our new office lease in San Francisco, California, a $1.7 million increase in cloud infrastructure fees to support the staging and development of our products, a $1.2 million increase in amortization expense related to our internal-use software and the intangible assets acquired through business combinations and a $1.2 million increase in the software subscription expense. These increases were partially offset by a $0.8 million decrease in compensation expense related to the 2015 Repurchase, which was not incurred in 2016.

In 2016, sales and marketing expenses increased by $16.0 million, or 32%, compared to 2015. The increase was primarily attributable to a $9.4 million increase in personnel costs, largely as a result of a 35% average increase in sales and marketing headcount as we continued to expand our sales efforts in the United States and internationally, a $1.6 million increase in credit card processing fees due to increased volumes, a $0.8 million increase in the software subscription expense, a $0.8 million increase in the facilities rent expense primarily due to our new office lease in San Francisco, California, a $0.7 million increase related to our SIGNAL developer conferences, a $0.6 million increase in advertising expenses, a $0.6 million increase in professional services fees and a $0.6 million increase in employee travel expenses.

In 2016, general and administrative expenses increased by $15.1 million, or 42%, compared to 2015. The increase was primarily attributable to a $7.7 million increase in personnel costs, largely as a result of a 41% average increase in general and administrative headcount to support the growth of our business and becoming a publicly-traded company, a $4.9 million increase in sales and other taxes, a $1.4 million increase in depreciation, amortization and facilities rent primarily due to our new office lease in San Francisco, California and a $0.9 million increase in professional service fees unrelated to business combinations. These increases were partially offset by a $1.1 million decrease in compensation expense related to the 2015 Repurchase, which was not incurred in 2016, a $0.8 million decrease related to the partial reversal of previously recorded tax liability upon settlement of the obligation and a $0.7 million decrease in professional services fees related to business combinations.

In 2016, of the net proceeds we received in our follow-on public offering, $3.9 million was reserved to fund and support the operations of Twilio.org. In December 2016, Twilio.org donated the full $3.9 million proceeds into an independent Donor Advised Find to further our philanthropic goals.

2015 Compared to 2014

In 2015, research and development expenses increased by $20.7 million, or 95%, compared to 2014. The increase was primarily attributable to a $14.0 million increase in personnel costs, net of a $4.7 million increase in capitalized software development costs, largely as a result of a 80% increase of our research and development headcount, as we continued to focus on enhancing our existing products and introducing new products, as well as enhancing product management and other technical functions. The increase was also due in part to a $1.1 million increase in cloud infrastructure fees to support the staging and development of our products, a $1.0 million increase in outsourced engineering services, net of $0.8 million increase in capitalized software development costs, a $0.8 million increase in compensation expense in relation to the 2015 Repurchase, a $0.8 million increase in amortization expense related to our internal-use software and the intangible assets acquired in the Authy transaction, a $0.7 million increase related to amortization of prepaid software licenses and a $0.5 million increase in our general overhead costs.

In 2015, sales and marketing expenses increased by $16.0 million, or 48%, compared to 2014. The increase was primarily attributable to a $9.6 million increase in personnel costs, largely as a result of a 39% increase in sales and marketing headcount as we continued to expand our sales efforts in the United States and internationally, a $2.6 million increase related to our SIGNAL developer conference, which was not held in the prior year, a $1.9 million increase in advertising expenses, a $0.7 million increase in credit card processing fees and a $0.2 million increase in our general overhead costs. These increases were partially offset by a $0.5 million decrease in expenses for brand awareness programs and events other than our SIGNAL developer conference.

In 2015, general and administrative expenses increased by $17.0 million, or 90%, compared to 2014. The increase was primarily attributable to a $7.5 million increase in personnel costs, largely as a result of a 72% increase in general and administrative headcount to support the growth of our business, a $4.1 million increase in professional service fees unrelated to Authy, a $2.0 million increase in sales and other taxes, a $1.1 million increase in compensation expense related to the 2015 Repurchase, a $0.8 million increase in professional service fees related to the acquisition of Authy and a $0.7 million increase related to depreciation, amortization and other general overhead, all associated with the growth of our business.

Quarterly Results of Operations

The following tables set forth our unaudited quarterly statements of operations data for each of the eight quarters ended December 31, 2016, as well as the percentage that each line item represents of our revenue for each quarter presented. The information for each quarter has been prepared on a basis consistent with our audited consolidated financial statements included in this Annual Report on Form 10-K, and reflect, in the opinion of management, all adjustments of a normal, recurring nature that are necessary for a fair presentation of the financial information contained in those statements. Our historical results are not necessarily indicative of the results that may be expected in the future. The following quarterly financial data should be read in conjunction with our audited consolidated financial statements included in this Annual Report on Form 10-K.

	Three Months Ended							
	March 31, 2015	June 30, 2015	Sept. 30, 2015	Dec. 31, 2015	March 31, 2016	June 30, 2016	Sept. 30, 2016	Dec. 31, 2016
	(Unaudited, in thousands)							
Consolidated Statements of Operations:								
Revenue	$33,365	$37,954	$ 44,262	$51,338	$59,340	$ 64,510	$ 71,533	$ 81,952
Cost of revenue[1][2]	15,545	16,827	19,602	22,480	26,827	28,203	31,285	34,205
Gross profit	17,820	21,127	24,660	28,858	32,513	36,307	40,248	47,747
Operating expenses:								
Research and development[1][2]	8,480	9,388	11,602	13,089	14,864	17,369	21,106	24,587
Sales and marketing[1]	9,869	14,164	12,067	13,208	13,422	18,156	15,873	17,816
General and administrative[1][2]	8,265	7,035	9,935	10,756	10,593	11,635	14,545	14,304
Charitable contribution	—	—	—	—	—	—	—	3,860
Total operating expenses	26,614	30,587	33,604	37,053	38,879	47,160	51,524	60,567
Loss from operations	(8,794)	(9,460)	(8,944)	(8,195)	(6,366)	(10,853)	(11,276)	(12,820)
Other income (expense), net	53	(83)	(28)	69	(18)	(28)	138	225
Loss before (provision) benefit for income taxes	(8,741)	(9,543)	(8,972)	(8,126)	(6,384)	(10,881)	(11,138)	(12,595)
(Provision) benefit for income taxes	81	(33)	(36)	(134)	(84)	(113)	(116)	(13)
Net loss	(8,660)	(9,576)	(9,008)	(8,260)	(6,468)	(10,994)	(11,254)	(12,608)
Deemed dividend to investors in relation to tender offer	—	—	(3,392)	—	—	—	—	—
Net loss attributable to common stockholders	$(8,660)	$(9,576)	$(12,400)	$(8,260)	$(6,468)	$(10,994)	$(11,254)	$(12,608)

(1) Includes stock-based compensation expense as follows:

	Three Months Ended							
	March 31, 2015	June 30, 2015	Sept. 30, 2015	Dec. 31, 2015	March 31, 2016	June 30, 2016	Sept. 30, 2016	Dec. 31, 2016
	(Unaudited, in thousands)							
Cost of revenue	$ 14	$ 14	$ 17	$ 20	$ 23	$ 28	$ 84	$ 156
Research and development	663	796	980	1,607	1,516	2,379	3,741	5,310
Sales and marketing	420	513	691	765	734	1,116	1,432	1,690
General and administrative	548	599	553	677	752	1,453	2,391	1,420
Total	$1,645	$1,922	$2,241	$3,069	$3,025	$4,976	$7,648	$8,576

(2) Includes amortization of acquired intangibles as follows:

	Three Months Ended							
	March 31, 2015	June 30, 2015	Sept. 30, 2015	Dec. 31, 2015	March 31, 2016	June 30, 2016	Sept. 30, 2016	Dec. 31, 2016
	(Unaudited, in thousands)							
Cost of revenue	$28	$ 21	$ 70	$120	$ 70	$ 70	$ 70	$409
Research and development	17	87	38	(12)	38	38	38	37
General and administrative	11	28	27	29	27	28	28	27
Total	$56	$136	$135	$137	$135	$136	$136	$473

	Three Months Ended							
	March 31, 2015	June 30, 2015	Sept. 30, 2015	Dec. 31, 2015	March 31, 2016	June 30, 2016	Sept. 30, 2016	Dec. 31, 2016
	(Unaudited)							
Consolidated Statements of Operations, as a percentage of revenue:**								
Revenue	100%	100%	100%	100%	100%	100%	100%	100%
Cost of revenue	47	44	44	44	45	44	44	42
Gross margin	53	56	56	56	55	56	56	58
Operating expenses:								
Research and development	25	25	26	25	25	27	30	30
Sales and marketing	30	37	27	26	23	28	22	22
General and administrative	25	19	22	21	18	18	20	17
Charitable contribution	—	—	—	—	—	—	—	5
Total operating expenses	80	81	76	72	66	73	72	74
Loss from operations	(26)	(25)	(20)	(16)	(11)	(17)	(16)	(16)
Other income (expense), net	*	*	*	*	*	*	*	*
Loss before (provision) benefit for income taxes	(26)	(25)	(20)	(16)	(11)	(17)	(16)	(15)
(Provision) benefit for income taxes	*	*	*	*	*	*	*	*
Net loss	(26)	(25)	(20)	(16)	(11)	(17)	(16)	(15)
Deemed dividend to investors in relation to tender offer	—	—	(8)	—	—	—	—	—
Net loss attributable to common stockholders	(26)%	(25)%	(28)%	(16)%	(11)%	(17)%	(16)%	(15)%

* Less than 0.5% of revenue.

** Columns may not add up to 100% due to rounding.

Form 10-K

	Three Months Ended							
	March 31, 2015	June 30, 2015	Sept. 30, 2015	Dec. 31, 2015	March 31, 2016	June 30, 2016	Sept. 30, 2016	Dec. 31, 2016
	(Unaudited, dollars in thousands)							
Number of Active Customer Accounts (*as of end date of period*)[(1)]	19,340	21,226	23,822	25,347	28,648	30,780	34,457	36,606
Base Revenue (*in thousands*)[(2)]	$25,931	$30,694	$36,729	$43,497	$49,834	$56,370	$64,099	$75,245
Base Revenue Growth Rate	*70%*	*75%*	*77%*	*97%*	*92%*	*84%*	*75%*	*73%*
Dollar-Based Net Expansion Rate[(3)]	145%	149%	156%	172%	170%	164%	155%	155%

(1) See the section titled "—Key Business Metrics—Number of Active Customer Accounts."

(2) See the section titled "—Key Business Metrics—Base Revenue."

(3) See the section titled "—Key Business Metrics—Dollar-Based Net Expansion Rate."

Quarterly Trends in Revenue and Gross Margin

Our quarterly revenue increased in each period presented primarily due to an increase in the usage of products as well as the adoption of additional products by our existing customers as evidenced by our Dollar-Based Net Expansion Rates, and an increase in our new customers. Our gross margin improved starting with the second quarter of 2015 due to continued platform optimization, and further improved in the fourth quarter of 2016 primarily as a result of cost savings from our continued platform optimization efforts, along with changes in our product and geographic mix.

Quarterly Trends in Operating Expenses

Our operating expenses have increased sequentially in absolute dollars as a result of our growth, primarily related to increased personnel costs to support our expanded operations and our continued investment in our products. The 2015 Repurchase resulted in $0.8 million and $1.1 million of research and development expense and general and administrative expense, respectively, in the third quarter of 2015. The sales and marketing expenses included $2.6 million and $3.0 million of expenses related to our SIGNAL developer conference in the second quarter of 2015 and 2016, respectively. The general and administrative expenses in the first quarter of 2015 included $1.1 million of professional service fees related to the acquisition of Authy. In addition, the general and administrative expenses for the quarters presented include a significant amount of sales and other taxes to which we are subject. We have not historically collected these taxes from our customers, but we expect to do so in the future.

Liquidity and Capital Resources

To date, our principal sources of liquidity have been the net proceeds of $155.5 million and $64.4 million, after deducting underwriting discounts and offering expenses paid or payable by us, from our initial public offering in June 2016 and our follow-on public offering in October 2016, respectively; the net proceeds we received through private sales of equity securities, as well as the payments received from customers using our products. From our inception through March 31, 2016, we completed several rounds of equity financing through the sale of our convertible preferred stock for total net proceeds of $237.1 million. We believe that our cash and cash equivalents balances, our credit facility and the cash flows generated by our operations will be sufficient to satisfy our anticipated cash needs for working capital and capital expenditures for at least the next 12 months. However, our belief may prove to be incorrect, and we could utilize our available financial resources sooner than we currently expect. Our future capital requirements and the adequacy of available funds will depend on many factors, including those set forth in the section titled "Risk Factors." We cannot assure you that we will be able to raise additional capital on acceptable terms or at all.

Credit Facility

On March 19, 2015, we entered into a $15.0 million revolving line of credit with Silicon Valley Bank. Under this credit facility, outstanding borrowings are based on our prior month's monthly recurring revenue. Advances on the line of credit bear interest payable monthly at Wall Street Journal prime rate plus 1%. Borrowings are secured by substantially all of our assets, with limited exceptions. In order to be able to borrow against the credit line, we must comply with certain restrictive covenants. We are currently in compliance with these covenants. This credit facility expires in March 2017. As of December 31, 2016, the total amount available to be borrowed by us was $15.0 million and we had no outstanding balance on this credit facility.

Cash Flows

The following table summarizes our cash flows for the periods indicated:

	Year Ended December 31,		
	2016	2015	2014
Cash provided by (used in) operating activities	$ 10,091	$ (18,762)	$ (17,360)
Cash used in investing activities	(42,425)	(12,379)	(5,340)
Cash provided by financing activities	229,164	107,349	612
Net increase (decrease) in cash and cash equivalents	$196,830	$ 76,208	$ (22,088)

Cash Flows from Operating Activities

In 2016, cash provided by operating activities consisted primarily of our net loss of $41.3 million adjusted for non-cash items, including $24.2 million of stock-based compensation expense, $8.3 million of depreciation and amortization expense and $16.9 million of cumulative changes in operating assets and liabilities. With respect to changes in operating assets and liabilities, accounts payable and other liabilities increased $25.9 million and deferred revenue increased $4.1 million, which were primarily due to increases in transaction volumes and additional accruals of sales and other taxes. Other long-term liabilities increased $9.1 million, primarily due to the increase in the deferred rent balance related to our new office lease in San Francisco, California. This was partially offset by an increase in accounts receivable and prepaid expenses of $22.0 million, which primarily resulted from the growth of our business and the timing of cash receipts from certain of our larger customers, pre-payments for cloud infrastructure fees and certain operating expenses, and a $5.7 million net increase related to the tenant improvement allowance under our new San Francisco, California office lease, after collecting $2.6 million from the landlord in the fourth quarter of 2016.

In 2015, cash used in operating activities consisted primarily of our net loss of $35.5 million adjusted for non-cash items, including $8.9 million of stock-based compensation expense, $4.2 million of depreciation and amortization expense and $2.9 million of cumulative changes in operating assets and liabilities. With respect to changes in operating assets and liabilities, accounts payable and other liabilities increased $13.9 million and deferred revenue increased $2.0 million, which were primarily due to increases in transaction volumes and additional accruals of sales and other taxes. This was partially offset by an increase in accounts receivable and prepaid expenses of $12.6 million, which primarily resulted from the growth of our business and the timing of cash receipts from certain of our larger customers, as well as pre-payments for cloud infrastructure fees and certain operating expenses.

In 2014, cash used in operating activities consisted primarily of our net loss of $26.8 million adjusted for certain non-cash items, including $4.0 million of stock-based compensation expense and $1.8 million of depreciation and amortization, as well as $3.4 million of cumulative changes in operating assets and liabilities. With respect to changes in assets and liabilities, accounts payable and other liabilities increased $8.6 million and deferred revenue increased $1.6 million, which was primarily due to increases in transaction volumes in 2014 compared to 2013 and additional accruals of sales and other taxes. This was partially offset by an increase in accounts receivable and prepaid expenses of $7.2 million, which primarily resulted from the growth of our business and the timing of cash receipts from certain of our large customers, as well as pre-payments for cloud infrastructure fees and certain operating expenses.

Cash Flows from Investing Activities

In 2016, cash used in investing activities was $42.4 million, primarily consisting of $14.2 million of payments related to purchases of property and equipment as we continued to expand our offices and grow our headcount to support the growth of our business, $11.5 million of payments for capitalized software development as we continued to build new products and enhance our existing products, an $8.5 million payment related to the Kurento WebRTC acquisition and a $7.4 million increase in restricted cash related to our new office lease in San Francisco, California.

In 2015, cash used in investing activities was $12.4 million, primarily consisting of $8.4 million of payments for capitalized software development as we continued to build new products and enhance our existing products, $1.8 million of payments related to the acquisition of Authy, net of $1.2 million of cash acquired, and $1.7 million of payments related to purchases of property and equipment as we continued to expand our offices and grow our headcount to support the growth of our business.

In 2014, cash used in investing activities was $5.3 million, primarily consisting of $3.6 million of payments for capitalized software development as we continued to build new products and enhance our existing products, $1.0 million of payments for purchases of property and equipment as we continued to expand our offices and grow our headcount to support the growth of our business and $0.5 million of payments for patent development.

Cash Flows from Financing Activities

In 2016, cash provided by financing activities was $229.2 million, primarily consisting of $225.7 million of aggregate proceeds raised in our initial public offering and follow-on public offering, net of underwriting discounts, and $9.1 million of proceeds from stock options exercises by our employees. These cash inflows were partially offset by $4.6 million of costs paid in connection with our public offerings.

In 2015, cash provided by financing activities was $107.3 million, primarily consisting of $125.4 million proceeds from our sales of Series E convertible preferred stock, net of issuance expenses, and $3.4 million proceeds from stock option exercises by our employees. This was partially offset by the $20.8 million of payments made in connection with our 2015 Repurchase and $0.7 million of payments for deferred offering costs.

In 2014, cash provided by financing activities was $0.6 million, primarily consisting of proceeds from stock option exercises by our employees.

Off-Balance Sheet Arrangements

We have not entered into any off-balance sheet arrangements and do not have any holdings in variable interest entities.

Contractual Obligations and Other Commitments

The following table summarizes our non-cancelable contractual obligations as of December 31, 2016:

	Less Than 1 Year	1 to 3 Years	3 to 5 Years	5 Years or More	Total
	(In thousands)				
As of December 31, 2016:					
Operating leases[1]	$ 7,534	$14,144	$14,070	$16,052	$ 51,800
Purchase obligations[2]	19,034	42,871	91	—	61,996
Total	$26,568	$57,015	$14,161	$16,052	$113,796

(1) Operating leases represent total future minimum rent payments under non-cancelable operating lease agreements. The $8.3 million tenant improvement allowance available under our 375 Beale Street Lease is not reflected in these numbers.

(2) Purchase obligations represent total future minimum payments under contracts with our cloud infrastructure provider, network service providers and other vendors. Purchase obligations exclude agreements that are cancelable without penalty. Unrecognized tax benefits are not included in the table above because any amounts expected to be settled in cash are not material.

Segment Information

We have one business activity and operate in one reportable segment.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. Preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable. In many instances, we could have reasonably used different accounting estimates and in other instances changes in the accounting estimates are reasonably likely to occur from period to period. Actual results could differ significantly from our estimates. To the extent that there are material differences between these estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected. We believe that the accounting policies discussed below are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving our judgments and estimates.

Revenue Recognition

We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable and collection is reasonably assured. We consider a signed contract or other similar documentation reflecting the terms and conditions under which products will be provided to be persuasive evidence of an arrangement. Collectability is assessed based on a number of factors, including payment history and the creditworthiness of a customer. If it is determined that collection is not reasonably assured, revenue is not recognized until collection becomes reasonably assured, which is generally upon receipt of cash.

Usage-based fees are recognized as products are delivered. Term-based fees are recorded on a straight-line basis over the contractual term of the arrangement beginning on the date when the product is made available to the customer, provided all other revenue recognition criteria are met.

Our arrangements do not contain general rights of return. However, credits to customers may be issued on a case-by-case basis. Our contracts do not provide customers with the right to take possession of our software supporting the applications. Amounts that have been invoiced are recorded in accounts receivable and in revenue or deferred revenue, depending on whether the revenue recognition criteria have been met.

We carry a reserve for sales credits that we calculate based on historical trends and any specific risks identified in processing transactions. Changes in the reserve are recorded against total revenue.

Sales and other taxes collected from customers to be remitted to government authorities are excluded from revenue.

Stock-Based Compensation

We account for stock-based compensation in accordance with the authoritative guidance on stock compensation. Under the fair value recognition provisions of this guidance, stock-based compensation is measured at the grant date based on the fair value of the award and is recognized as expense, over the requisite service period, which is generally the vesting period of the respective award. Under the old guidance, the stock-based compensation was recorded net of estimated forfeitures.

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, "*Compensation—Stock Compensation (Topic 718): Improvements to Employee Share -Based Payment Accounting.*" This new guidance is intended to simplify several areas of accounting for stock-based compensation arrangements, including accounting for forfeitures, the income tax impact and classification on the statement of cash flows. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption is permitted. We early adopted this guidance in the quarter ended December 31, 2016. The new guidance allows entities to account for forfeitures as they occur. We elected to account for forfeitures as they occur and adopted this provision on a modified retrospective basis. The $0.1 million of cumulative prior years' impact as well as the impact on the first three quarters of 2016 of $75,000 was recognized as an increase to stock-based compensation during the quarter ended December 31, 2016, as the impact on prior periods was insignificant. Further, recognition of the previously unrecognized excess tax benefits resulted in the recognition of a tax benefit of $62,000 in our consolidated statement of operations in the fourth quarter of 2016. Adoption of all other changes in the new guidance did not have a significant impact on our consolidated financial statements.

Prior to our initial public offering ("IPO") in June 2016, we granted restricted stock units ("Pre-IPO RSUs") under our 2008 Stock Option Plan (the "2008 Plan") to our employees that vested upon the satisfaction of both a service condition and a liquidity condition. The service condition for the majority of these awards will be satisfied over four years. The liquidity condition was satisfied upon occurrence of our IPO in June 2016. RSUs granted on or after the completion of our IPO ("Post-IPO RSUs") are under our 2016 Stock Options Incentive Plan (the "2016 Plan") and vest upon the satisfaction of a time based service condition. The compensation expense related to these grants is based on the grant date fair value of the RSUs and is recognized on a ratable basis over the applicable service period. The majority of Post-IPO RSUs are earned over a service period of two to four years.

Determining the fair value of stock-based awards at the grant date requires judgment. We use the Black-Scholes option-pricing model to determine the fair value of stock options and purchase rights under our 2016 Employee Stock Purchase Plan (the "2016 ESPP") granted to our employees and directors. The grant date fair value of restricted stock units is determined using the fair value of our common stock on the date of grant. Prior to our initial public offering, the fair value of our Class A common stock was determined by the estimated fair value at the time of grant. After our initial public offering, we use the market closing price of our Class A common stock as reported on the New York Stock Exchange for the fair value.

The determination of the grant date fair value of options using an option-pricing model is affected by our estimated Class A common stock fair value as well as assumptions regarding a number of other complex and subjective variables. These variables include the fair value of our Class A common stock, our expected stock price volatility over the expected term of the options, stock option exercise and cancellation behaviors, risk-free interest rates, and expected dividends, which are estimated as follows:

- *Fair value of the common stock.* Prior to our initial public offering, our board of directors considered numerous objective and subjective factors to determine the fair value of our common stock at each meeting at which awards are approved. The factors included, but were not limited to: (i) contemporaneous valuations of our common stock by an unrelated third party; (ii) the prices at which we sold shares of our convertible preferred stock to outside investors in arms-length transactions; (iii) the rights, preferences and privileges of our convertible preferred stock relative to those of our common stock; (iv) our results of operations, financial position and capital resources; (v) current business conditions and projections; (vi) the lack of marketability of our common stock; (vii) the hiring of key personnel and the experience of management; (viii) the introduction of new products; (ix) the risk inherent in the development and expansion of our products; (x) our stage of development and material risks related to its business; (xi) the fact that the option grants involve illiquid securities in a private company; and (xii) the likelihood of achieving a liquidity event, such as an initial public offering or sale of our Company, in light of prevailing market conditions.
- In valuing our common stock, our board of directors determined the equity value of our Company using both the income and the market approach valuation methods. The income approach estimates value based on the expectation of future cash flows that a company will generate. These future cash flows are discounted to their present values using a discount rate derived from an analysis of the cost of capital of comparable publicly traded companies in our industry as of each valuation date and is adjusted to reflect the risks inherent in our cash flows. The market approach estimates value based on a comparison of the subject company to comparable public companies in a similar line of business. From the comparable companies, a representative market value multiple is determined and then applied to the subject company's financial results to estimate the value of the subject company.
- From June 30, 2014 until our initial public offering, we used the Probability-Weighted Expected Return Method, or PWERM, to allocate our equity value among various outcomes. Using the PWERM, the value of our common stock was estimated based upon a probability-weighted analysis of varying values for our common stock assuming possible future events for our Company, such as:
    - a "liquidation" scenario, where we assume the Company is dissolved and the book value less the applicable liquidation preferences represents the amount available to the common stockholders;
    - a strategic sale in the near term;
    - an initial public offering; or
    - a private company scenario in which operations continue as a privately held company.

Application of these approaches involves the use of estimates, judgment and assumptions that are highly complex and subjective, such as those regarding our expected future revenue, expenses and future cash flows, discount rates, market multiples, the selection of comparable companies and the probability of possible future events. Changes in any or all of these estimates and assumptions or the relationships between those assumptions impact our valuations as of each valuation date and may have a material impact on the valuation of our common stock. Following our initial public offering, it was no longer necessary to determine the fair value of our Class A common stock using these valuation approaches as shares of our Class A common stock are traded on the New York Stock Exchange.

- *Expected term.* The expected term represents the period that the stock-based awards are expected to be outstanding. We use the simplified calculation of expected term, as we do not have sufficient historical data to use any other method to estimate expected term.
- *Expected volatility.* The expected volatility is derived from an average of the historical volatilities of the common stock of several entities with characteristics similar to ours, such as the size, and operational and economic similarities to our principle business operations. We use this method because we have limited information on the volatility of our Class A common stock because of our short trading history.
- *Risk-free interest rate.* The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for zero coupon U.S. Treasury notes with maturities approximately equal the expected term of the stock-based awards.
- *Expected dividend.* The expected dividend is assumed to be zero as we have never paid dividends and have no current plans to pay any dividends on our common stock.

The following table summarizes the assumptions used in the Black-Scholes option-pricing model to determine the fair value of our stock options, as follows:

	Year Ended December 31,		
	2016	2015	2014
Employee Stock Options			
Fair value of common stock	\$10.09 - \$15.00	\$7.07 - \$10.09	\$3.99 - \$6.69
Expected term (in years)	6.08	6.08	5.27 - 6.57
Expected volatility	51.4% - 53.0%	47.8% - 54.9%	54.4%
Risk-free interest rate	1.3% - 1.5%	1.4% - 2.0%	1.7% - 2.0%
Dividend rate	0%	0%	0%
Employee Stock Purchase Plan			
Expected term (in years)	0.9	—	—
Expected volatility	52%	—	—
Risk-free interest rate	0.6%	—	—
Dividend rate	0%	—	—

Valuation of Goodwill and Intangible Assets

When we acquire businesses using non-cash consideration as part of the purchase consideration, such as our capital stock, we are required to estimate the fair value of such non-cash consideration on the acquisition date. We acquired businesses when we were a private company and given the absence of a public trading market for our capital stock, the measurement of equity-based consideration required judgment and consideration of numerous objective and subjective factors. Refer to the discussion on the valuation of common stock noted above, for which similar objective and subjective factors are also considerations in estimating the fair value of our preferred stock.

When we acquire businesses, we allocate the purchase price to the tangible assets and liabilities and identifiable intangible assets acquired. Any residual purchase price is recorded as goodwill. The allocation of the purchase price requires management to make significant estimates in determining the fair values of assets acquired and liabilities assumed, especially with respect to intangible assets. These estimates are based on information obtained from management of the acquired companies, market information and historical experience. These estimates can include, but are not limited to:

- the time and expenses that would be necessary to recreate the asset;

- the profit margin a market participant would receive;
- cash flows that an asset is expected to generate in the future; and
- discount rates.

These estimates are inherently uncertain and unpredictable, and if different estimates were used the purchase price for the acquisition could be allocated to the acquired assets and liabilities differently from the allocation that we have made. In addition, unanticipated events and circumstances may occur which may affect the accuracy or validity of such estimates, and if such events occur we may be required to record a charge against the value ascribed to an acquired asset or an increase in the amounts recorded for assumed liabilities. Under the current authoritative guidance, we are allowed a one-year measurement period to finalize our preliminary valuation of the tangible and intangibles assets and liabilities acquired and make necessary adjustments to goodwill.

Internal-Use Software Development Costs

We capitalize certain costs related to the development of our platform and other software applications for internal use. In accordance with authoritative guidance, we begin to capitalize our costs to develop software when preliminary development efforts are successfully completed, management has authorized and committed project funding, and it is probable that the project will be completed and the software will be used as intended. We stop capitalizing these costs when the software is substantially complete and ready for its intended use, including the completion of all significant testing. These costs are amortized on a straight-line basis over the estimated useful life of the related asset, generally estimated to be three years. We also capitalize costs related to specific upgrades and enhancements when it is probable the expenditure will result in additional functionality and expense costs incurred for maintenance and minor upgrades and enhancements. Costs incurred prior to meeting these criteria together with costs incurred for training and maintenance are expensed as incurred and recorded within product development expenses in our consolidated statements of operations. We exercise judgment in determining the point at which various projects may be capitalized, in assessing the ongoing value of the capitalized costs and in determining the estimated useful lives over which the costs are amortized. To the extent that we change the manner in which we develop and test new features and functionalities related to our platform, assess the ongoing value of capitalized assets or determine the estimated useful lives over which the costs are amortized, the amount of internal-use software development costs we capitalize and amortize could change in future periods.

Legal and Other Contingencies

We are subject to legal proceedings and litigation arising in the ordinary course of business. Periodically, we evaluate the status of each legal matter and assess our potential financial exposure. If the potential loss from any legal proceeding or litigation is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. Significant judgment is required to determine the probability of a loss and whether the amount of the loss is reasonably estimable. The outcome of any proceeding is not determinable in advance. As a result, the assessment of a potential liability and the amount of accruals recorded are based only on the information available to us at the time. As additional information becomes available, we reassess the potential liability related to the legal proceeding or litigation, and may revise our estimates. Any revisions could have a material effect on our results of operations.

We conduct operations in many tax jurisdictions throughout the United States. In many of these jurisdictions, non-income-based taxes, such as sales and use and telecommunications taxes are assessed on our operations. We are subject to indirect taxes, and may be subject to certain other taxes, in some of these jurisdictions. Historically, we have not billed or collected these taxes and, in accordance with U.S. GAAP, we have recorded a provision for our tax exposure in these jurisdictions when it is both probable that a liability has been incurred and the amount of the exposure can be reasonably estimated. As a result, we have recorded a liability of $28.8 million and $17.6 million as of December 31, 2016 and 2015, respectively. These estimates are based on several key assumptions, including the taxability of our products, the jurisdictions in which we believe we have nexus and the sourcing of revenues to those jurisdictions. In the event these jurisdictions challenge our assumptions and analysis, our actual exposure could differ materially from our current estimates. During the fourth quarter of 2016 we reached a settlement in one jurisdiction related to the liability accrued for historical periods in that jurisdiction. As a result of the settlement, we released a $0.8 million accrual related to that jurisdiction.

Recent Accounting Pronouncements Not Yet Adopted

See Note 2(aa) to the consolidated financial statements included elsewhere in this Annual Report on Form 10-K for a discussion of recent accounting pronouncements not yet adopted.

JOBS Act

Under the JOBS Act, we meet the definition of an "emerging growth company." As such, we may avail ourselves of an extended transition period for complying with new or revised accounting standards. However, we have chosen to "opt out" of such extended transition period, and as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to certain market risks in the ordinary course of our business. These risks primarily include interest rate sensitivities as follows:

Interest Rate Risk

We had cash and cash equivalents of $305.7 million as of December 31, 2016, which consisted of bank deposits and money market funds. The cash and cash equivalents are held for working capital purposes. Such interest-earning instruments carry a degree of interest rate risk. To date, fluctuations in interest income have not been significant. The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk. We do not enter into investments for trading or speculative purposes and have not used any derivative financial instruments to manage our interest rate risk exposure. Due to the short-term nature of our investments, we have not been exposed to, nor do we anticipate being exposed to, material risks due to changes in interest rates. The interest rate on our outstanding credit facility is fixed. A hypothetical 10% change in interest rates during any of the periods presented would not have had a material impact on our consolidated financial statements.

Currency Exchange Risks

The functional currency of our foreign subsidiaries is the U.S. dollar. Therefore, we are exposed to foreign exchange rate fluctuations as we convert the financial statements of our foreign subsidiaries into U.S. dollars. The local currencies of our foreign subsidiaries are the British pound, the euro, the Colombian peso, the Singapore dollar and the Hong Kong dollar. Our subsidiaries remeasure monetary assets and liabilities at period-end exchange rates, while non-monetary items are remeasured at historical rates. Revenue and expense accounts are remeasured at the average exchange rate in effect during the year. 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 realized gain or loss which is recorded in our consolidated statements of operations. We do not currently engage in any hedging activity to reduce our potential exposure to currency fluctuations, although we may choose to do so in the future. A hypothetical 10% change in foreign exchange rates during any of the periods presented would not have had a material impact on our consolidated financial statements.

Item 8. ***Financial Statements and Supplementary Data***

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Twilio Inc. and subsidiaries:

We have audited the accompanying consolidated balance sheets of Twilio Inc. and subsidiaries (the Company) as of December 31, 2016 and 2015, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Twilio Inc. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

San Francisco, California
February 21, 2017

TWILIO INC.

Consolidated Balance Sheets

(In thousands, except share and per share amounts)

	As of December 31,	
	2016	**2015**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 305,665	$ 108,835
Accounts receivable, net	26,203	19,094
Prepaid expenses and other current assets	21,512	8,546
Total current assets	353,380	136,475
Restricted cash	7,445	1,170
Property and equipment, net	37,552	14,058
Intangible assets, net	10,268	2,292
Goodwill	3,565	3,165
Other long-term assets	484	356
Total assets	$ 412,694	$ 157,516
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,174	$ 2,299
Accrued expenses and other current liabilities	59,308	31,998
Deferred revenue	10,222	6,146
Total current liabilities	73,704	40,443
Other long-term liabilities	9,543	448
Total liabilities	83,247	40,891
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Convertible preferred stock, $0.001 par value per share, issuable in Series A, B, C, D, E and T:		
Authorized shares none and 58,976,739 as of December 31, 2016 and 2015; Issued and outstanding shares none and 54,508,441 as of December 31, 2016 and 2015; aggregate liquidation preference of none and $241.6 million as of December 31, 2016 and 2015	—	239,911
Common stock, $0.001 par value per share:		
Authorized shares 1,100,000,000 and 102,000,000 as of December 31, 2016 and 2015; Issued and outstanding shares 87,248,548 and 17,324,003 as of December 31, 2016 and 2015	87	17
Additional paid-in capital	516,090	22,103
Accumulated deficit	(186,730)	(145,406)
Total stockholders' equity	329,447	116,625
Total liabilities and stockholders' equity	$ 412,694	$ 157,516

See accompanying notes to consolidated financial statements.

TWILIO INC.

Consolidated Statements of Operations

(In thousands, except share and per share amounts)

	Year Ended December 31,		
	2016	2015	2014
Revenue	$ 277,335	$ 166,919	$ 88,846
Cost of revenue	120,520	74,454	41,423
Gross profit	156,815	92,465	47,423
Operating expenses:			
Research and development	77,926	42,559	21,824
Sales and marketing	65,267	49,308	33,322
General and administrative	51,077	35,991	18,960
Charitable contribution	3,860	—	—
Total operating expenses	198,130	127,858	74,106
Loss from operations	(41,315)	(35,393)	(26,683)
Other income (expenses), net	317	11	(62)
Loss before provision for income taxes	(40,998)	(35,382)	(26,745)
Provision for income taxes	(326)	(122)	(13)
Net loss	(41,324)	(35,504)	(26,758)
Deemed dividend to investors in relation to tender offer	—	(3,392)	—
Net loss attributable to common stockholders	$ (41,324)	$ (38,896)	$ (26,758)
Net loss per share attributable to common stockholders, basic and diluted	$ (0.78)	$ (2.19)	$ (1.58)
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted	53,116,675	17,746,526	16,900,124

See accompanying notes to consolidated financial statements.

TWILIO INC.

Consolidated Statements of Stockholders' Equity

(In thousands, except share amounts)

	Convertible preferred stock		Common Stock—Class A		Common Stock—Class B		Additional paid-in capital	Accumulated deficit	Total stockholders' equity
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance as of December 31, 2013	42,482,490	$ 111,691	—	$—	16,958,130	$ 17	$ 3,868	$ (62,676)	$ 52,900
Net loss	—	—	—	—	—	—	—	(26,758)	(26,758)
Exercise of vested stock options	—	—	—	—	487,821	—	590	—	590
Vesting of early exercised stock options	—	—	—	—	—	—	191	—	191
Exercises of unvested stock options	—	—	—	—	6,850	—	—	—	—
Repurchases of unvested stock options	—	—	—	—	(6,750)	—	—	—	—
Stock-based compensation	—	—	—	—	—	—	4,271	—	4,271
Balance as of December 31, 2014	42,482,490	$ 111,691	—	—	17,446,051	17	8,920	(89,434)	31,194
Net loss	—	—	—	—	—	—	—	(35,504)	(35,504)
Exercise of vested stock options	—	—	—	—	1,696,318	2	3,126	—	3,128
Vesting of early exercised stock options	—	—	—	—	—	—	201	—	201
Exercises of unvested stock options	—	—	—	—	70,874	—	—	—	—
Repurchase of shares in tender offer	(365,916)	(315)	—	—	(1,869,156)	(2)	—	(17,076)	(17,393)
Deemed dividend in relation to tender offer	—	—	—	—	—	—	—	(3,392)	(3,392)
Repurchases of unvested stock options	—	—	—	—	(20,084)	—	—	—	—
Issuance of Series T convertible preferred Stock in acquisition	897,618	3,087	—	—	—	—	—	—	3,087
Issuance of Series E convertible preferred stock (net of issuance costs of $4.6 million)	11,494,249	125,448	—	—	—	—	—	—	125,448
Stock-based compensation	—	—	—	—	—	—	9,856	—	9,856
Balance as of December 31, 2015	54,508,441	239,911	—	—	17,324,003	17	22,103	(145,406)	116,625
Net loss	—	—	—	—	—	—	—	(41,324)	(41,324)
Issuance of common stock in connection with the initial public offering, net of underwriting discounts	—	—	11,500,000	12	—	—	160,414	—	160,426
Issuance of common stock in connection with the follow-on public offering, net of underwriting discounts	—	—	1,691,222	2	—	—	65,279	—	65,281
Costs related to public offerings	—	—	—	—	—	—	(5,730)	—	(5,730)
Conversion of convertible preferred stock to common stock in connection with the initial public offering	(54,508,411)	(239,911)	—	—	54,508,441	54	239,857	—	—
Exercises of vested stock options	—	—	—	—	2,168,287	2	8,390	—	8,392
Vesting of early exercised stock options	—	—	—	—	—	—	636	—	636
Vesting of restricted stock units	—	—	19,178	—	68,345	—	—	—	—
Value of equity awards withheld for tax liability	—	—	(1,578)	—	(27,036)	—	(1,037)	—	(1,037)
Exercises of unvested stock options	—	—	—	—	126,365	—	—	—	—
Conversion of shares of Class B common stock into shares of Class A common stock	—	—	36,787,588	37	(36,787,588)	(37)	—	—	—
Repurchases of unvested stock options	—	—	—	—	(1,625)	—	—	—	—
Stock-based compensation	—	—	—	—	—	—	26,178	—	26,178
Escrow shares returned to the issuer	—	—	—	—	(127,054)	—	—	—	—
Balance as of December 31, 2016	—	$ —	49,996,410	$51	37,252,138	$ 36	$516,090	$(186,730)	$329,447

See accompanying notes to consolidated financial statements.

TWILIO INC.

Consolidated Statements of Cash Flows

(In thousands)

	Year Ended December 31,		
	2016	**2015**	**2014**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$(41,324)	$(35,504)	$(26,758)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	8,315	4,226	1,756
Stock-based compensation	24,225	8,877	3,978
Provision for doubtful accounts	1,145	705	261
Tax benefit related to acquisition	—	(108)	—
Write-off of internal-use software	711	113	—
Loss on lease termination	94	—	—
Changes in operating assets and liabilities:			
Accounts receivable	(8,254)	(10,506)	(4,300)
Prepaid expenses and other current assets	(13,755)	(2,128)	(2,857)
Other long-term assets	(135)	(162)	283
Accounts payable	1,714	658	1,227
Accrued expenses and other current liabilities	24,182	13,202	7,332
Deferred revenue	4,076	1,974	1,632
Other long-term liabilities	9,097	(109)	86
Net cash provided by (used in) operating activities	10,091	(18,762)	(17,360)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in restricted cash	(7,439)	—	(170)
Capitalized software development costs	(11,527)	(8,409)	(3,604)
Purchases of property and equipment	(14,174)	(1,715)	(1,039)
Purchases of intangible assets	(785)	(494)	(527)
Acquisition, net of cash acquired	(8,500)	(1,761)	—
Net cash used in investing activities	(42,425)	(12,379)	(5,340)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from the initial public offering, net of underwriting discounts	160,426	—	—
Proceeds from the follow-on public offering, net of underwriting discounts	65,281	—	—
Payments of costs related to public offerings	(4,606)	(694)	—
Net proceeds from issuance of convertible preferred stock	—	125,448	—
Proceeds from exercises of vested options	8,392	3,128	590
Proceeds from exercises of nonvested options	710	277	26
Value of equity awards withheld for tax liabilities	(1,037)	—	—
Repurchases of common and preferred stock	(2)	(20,810)	(4)
Net cash provided by financing activities	229,164	107,349	612
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	196,830	76,208	(22,088)
CASH AND CASH EQUIVALENTS—Beginning of year	108,835	32,627	54,715
CASH AND CASH EQUIVALENTS—End of year	$305,665	$108,835	$ 32,627
Cash paid for income taxes	$ 225	$ 46	$ 13
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Purchases of property, equipment and intangible assets, accrued but not paid	$ 4,201	$ 97	$ 25
Stock-based compensation capitalized in software development costs	$ 1,953	$ 979	$ 293
Vesting of early exercised options	$ 636	$ 201	$ 191
Series T convertible preferred stock issued as part of purchase price in the Authy acquisition	—	$ 3,087	$ —
Costs related to public offerings, accrued but not paid	$ 430	$ 1,265	$ —

See accompanying notes to consolidated financial statements.

1. Organization and Description of Business

Twilio Inc. (the "Company") was incorporated in the state of Delaware on March 13, 2008. The Company provides a Cloud Communications Platform that enables developers to build, scale and operate communications within software applications through the cloud primarily as a pay-as-you-go service. The Company's product offerings fit three basic categories: Programmable Voice, Programmable Messaging and Programmable Video. The Company also provides use case products, such as a two-factor authentication solution.

The Company's headquarters are located in San Francisco, California and the Company has subsidiaries in the United Kingdom, Estonia, Ireland, Colombia, Germany, Hong Kong, Singapore, Bermuda and Spain.

Initial Public Offering

In June 2016, the Company completed an initial public offering ("IPO") in which the Company sold 11,500,000 shares of its newly authorized Class A common stock, which included 1,500,000 shares sold pursuant to the exercise by the underwriters of an option to purchase additional shares, at the public offering price of $15.00 per share. The Company received net proceeds of $155.5 million, after deducting underwriting discounts and offering expenses paid by the Company, from the sale of its shares in the IPO. Immediately prior to the completion of the IPO, all shares of common stock then outstanding were reclassified as shares of Class B common stock and all shares of convertible preferred stock then outstanding were converted into 54,508,441 shares of common stock on a one-to-one basis, and then reclassified as shares of Class B common stock. See Note 12 for further discussion of Class A and B common stock.

Follow-on Public Offering

In October 2016, the Company completed a follow-on public offering ("FPO") in which the Company sold 1,691,222 shares of its Class A common stock, which included 1,050,000 shares sold pursuant to the exercise by the underwriters of an option to purchase additional shares, at a public offering price of $40.00 per share. In addition, another 6,358,778 shares of the Company's Class A common stock were sold by the selling stockholders of the Company, which included 906,364 shares sold pursuant to the exercise of employee stock options by certain selling stockholders. The Company received aggregate proceeds of $64.4 million, after deducting underwriting discounts and offering expenses paid and payable by the Company. The Company did not receive any of the net proceeds from the sales of shares by the selling stockholders.

2. Summary of Significant Accounting Policies

(a) Basis of Presentation

The Company's consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

(b) Principles of Consolidation

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

2. Summary of Significant Accounting Policies (Continued)

(c) Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are used for, but not limited to, revenue allowances and returns; valuation of the Company's stock-based awards; recoverability of long-lived and intangible assets; the capitalization and useful life of the Company's capitalized internal-use software; fair value of acquired intangible assets and goodwill; accruals and contingencies. Estimates are based on historical experience and on various assumptions that the Company believes are reasonable under current circumstances. However, future events are subject to change and best estimates and judgments may require further adjustments; therefore, actual results could differ materially from those estimates. Management periodically evaluates such estimates and they are adjusted prospectively based upon such periodic evaluation.

(d) Concentration of Credit Risk

Financial instruments that potentially expose the Company to a concentration of credit risk consist primarily of cash, cash equivalents, restricted cash and accounts receivable. The Company maintains cash, cash equivalents and restricted cash with financial institutions that management believes are financially sound and have minimal credit risk exposure.

The Company sells its services to a wide variety of customers. If the financial condition or results of operations of any one of the large customers deteriorate substantially, operating results could be adversely affected. To reduce credit risk, management performs ongoing credit evaluations of the financial condition of significant customers. The Company does not require collateral from its credit customers and maintains reserves for estimated credit losses on customer accounts when considered necessary. Actual credit losses may differ from the Company's estimates. During the years ended December 31, 2016, one customer organization represented approximately 14% of the Company's total revenue. During the years ended December 31, 2015 and 2014, a different customer organization represented approximately 17% and 13%, respectively, of the Company's total revenue.

As of December 31, 2016, one customer organization represented approximately 16% of the Company's gross accounts receivable. As of December 31, 2015, two customer organizations represented approximately 11% each of the Company's gross accounts receivable.

(e) Revenue Recognition

The Company derives its revenue primarily from usage-based fees earned from customers accessing the Company's enterprise cloud computing services invoiced or paid monthly. The Company also earns subscription fees from certain term-based contracts. The Company provides services to its customers under pay-as-you-go contracts and term-based contracts ranging in duration from one month to 48 months. Customers that pay via credit card are either billed in advance or as they use service. Larger customers are billed in arrears via invoices for services used. Certain customers have contracts that provide for a minimum monthly commitment and some customers have contracts that provide for a commitment that may be of a quarterly, annual or other specific durations.

2. Summary of Significant Accounting Policies (Continued)

The Company recognizes revenue from these transactions when all of the following criteria are satisfied:

- there is persuasive evidence of an arrangement;
- the service has been or is being provided to the customer;
- the amount of the fees to be paid by the customer is fixed or determinable; and
- collectability of the fees is reasonably assured.

Term-based contracts revenue is recognized on a straight-line basis over the contractual term of the arrangement beginning on the date that the service is made available to the customer, provided that all other revenue recognition criteria have been met. Usage-based fees are recognized as delivered.

The Company's arrangements do not contain general rights of return. However, credits may be issued to customers on a case-by-case basis. The contracts do not provide customers with the right to take possession of the software supporting the applications. Amounts that have been invoiced are recorded in accounts receivable and in revenue or deferred revenue, depending on whether the revenue recognition criteria have been met.

The reserve for sales credits was $0.5 million and $0.7 million as of December 31, 2016 and 2015, respectively, and is included in accounts receivable, net in the accompanying consolidated balance sheets. The reserve for sales credits is calculated based on historical trends and any specific risks identified in processing transactions. Changes in the reserve are recorded against revenue.

(f) Cost of Revenue

Cost of revenue consists primarily of costs of communications services purchased from network service providers. Cost of revenue also includes fees to support the Company's cloud infrastructure, personnel costs, such as salaries and stock-based compensation for the customer care and support services employees, and non-personnel costs, such as amortization of capitalized internal-use software development costs.

(g) Research and Development Expenses

Research and development expenses consist primarily of personnel costs, cloud infrastructure fees for staging and development, outsourced engineering services, amortization of capitalized internal-use software development costs and an allocation of general overhead expenses. The Company capitalizes the portion of its software development costs that meets the criteria for capitalization.

(h) Internal-Use Software Development Costs

Certain costs of platform and other software applications developed for internal use are capitalized. The Company capitalizes qualifying internal-use software development costs that are incurred during the application development stage. Capitalization of costs begins when two criteria are met: (i) the preliminary project stage is completed and (ii) it is probable that the software will be completed and used for its intended function. Capitalization ceases when the software is substantially complete and ready for its intended use, including the completion of all significant testing. The Company also capitalizes costs related to specific upgrades and enhancements when it is probable the

2. Summary of Significant Accounting Policies (Continued)

expenditures will result in additional functionality and expenses costs incurred for maintenance and minor upgrades and enhancements. Costs related to preliminary project activities and post-implementation operating activities are expensed as incurred.

Capitalized costs of platform and other software applications are included in property and equipment. These costs are amortized over the estimated useful life of the software on a straight-line basis over three years. Management evaluates the useful life of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets. The amortization of costs related to the platform applications is included in cost of revenue, while the amortization of costs related to other software applications developed for internal use is included in research and development expenses.

(i) Advertising Costs

Advertising costs are expensed as incurred and were $3.5 million, $2.9 million and $1.0 million in the years ended December 31, 2016, 2015 and 2014, respectively. Advertising costs are included in sales and marketing expenses in the accompanying consolidated statements of operations.

(j) Stock-Based Compensation

All stock-based compensation to employees, including the purchase rights issued under the Company's 2016 Employee Stock Purchase Plan (the "ESPP"), is measured on the grant date based on the fair value of the awards on the date of grant. This cost is recognized as an expense following the ratable attribution method, over the requisite service period, for stock options, and the straight-line attribution method, over the offering period, for the purchase rights issued under the ESPP. The Company uses the Black-Scholes option pricing model to measure the fair value of its stock options and the purchase rights issued under the ESPP. The fair value of the restricted stock units is determined using the fair value of the Company's Class A common stock on the date of grant. Prior to adoption of ASU 2016-09, the stock-based compensation was recorded net of estimated forfeitures.

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, "*Compensation—Stock Compensation (Topic 718): Improvements to Employee Share -Based Payment Accounting*." This new guidance was intended to simplify several areas of accounting for stock-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption is permitted. The Company early adopted this guidance in the quarter ended December 31, 2016. The new guidance allows entities to account for forfeitures as they occur. The Company elected to account for forfeitures as they occur and adopted this provision on a modified retrospective basis. The $0.1 million of cumulative prior years' impact as well as the impact on the first three quarters of 2016 of $75,000 was recognized as an increase to stock-based compensation during the quarter ended December 31, 2016, as the impact on prior periods was insignificant. Adoption of all other changes in the new guidance did not have a significant impact on the Company's consolidated financial statements. See Note 15 for additional detail on the impact from the tax-related provisions of this ASU.

Prior to the IPO, the fair value of the Company's common stock was determined by the estimated fair value of the Company's common stock at the time of grant. After the IPO, the Company uses the

2. Summary of Significant Accounting Policies (Continued)

market closing price of its Class A common stock as reported on the New York Stock Exchange for the fair value.

Compensation expense for stock options granted to nonemployees is calculated using the Black-Scholes option pricing model and is recognized in expense over the service period. Compensation expense for nonemployee stock options subject to vesting is revalued at each reporting date until the stock options are vested.

The Black-Scholes option pricing model requires the use of highly subjective and complex assumptions, which determine the fair value of stock-based awards. These assumptions include:

- *Fair value of the common stock.* Prior to the Company's IPO, the board of directors considered numerous objective and subjective factors to determine the fair value of the Company's common stock at each meeting at which awards are approved. The factors included, but were not limited to: (i) contemporaneous valuations of the Company's common stock by an unrelated third party; (ii) the prices at which the Company sold shares of its convertible preferred stock to outside investors in arms-length transactions; (iii) the rights, preferences and privileges of the Company's convertible preferred stock relative to those of its common stock; (iv) the Company's results of operations, financial position and capital resources; (v) current business conditions and projections; (vi) the lack of marketability of the Company's common stock; (vii) the hiring of key personnel and the experience of management; (viii) the introduction of new products; (ix) the risk inherent in the development and expansion of the Company's products; (x) the Company's stage of development and material risks related to its business; (xi) the fact that the option grants involve illiquid securities in a private company; and (xii) the likelihood of achieving a liquidity event, such as an initial public offering or sale of the Company, in light of prevailing market conditions;
- *Expected term.* The expected term represents the period that the stock-based awards are expected to be outstanding. The Company uses the simplified calculation of expected term, as the Company does not have sufficient historical data to use any other method to estimate expected term;
- *Expected volatility.* The expected volatility is derived from an average of the historical volatilities of the common stock of several entities with characteristics similar to those of the Company, such as the size and operational and economic similarities to the Company's principal business operations;
- *Risk -free interest rate.* The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for zero coupon U.S. Treasury notes with maturities approximately equal the expected term of the stock-based awards; and
- *Expected dividend.* The expected dividend is assumed to be zero as the Company has never paid dividends and has no current plans to pay any dividends on its common stock.

If any of the assumptions used in the Black-Scholes model changes, stock-based compensation for future options may differ materially compared to that associated with previous grants.

2. Summary of Significant Accounting Policies (Continued)

(k) Income Taxes

The Company accounts for income taxes in accordance with authoritative guidance which requires the use of the asset and liability approach. Deferred tax assets and liabilities are recognized for future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as net operating loss and tax credit carry-forwards. Deferred tax amounts are determined by using the enacted tax rates expected to be in effect when the temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance reduces the deferred tax assets to the amount that is more likely than not to be realized.

The Company recognizes the effect of uncertain income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

The Company records interest and penalties related to uncertain tax positions in the provision for income taxes in the consolidated statements of operations.

(l) Foreign Currency Translation

The functional currency of the Company's foreign subsidiaries is the U.S. dollar. Accordingly, the subsidiaries remeasure monetary assets and liabilities at period-end exchange rates, while non-monetary items are remeasured at historical rates. Revenue and expense accounts are remeasured at the average exchange rate in effect during the year. Remeasurement adjustments are recognized in the consolidated statements of operations as other income or expense in the year of occurrence. Foreign currency transaction gains and losses were insignificant for all periods presented.

(m) Comprehensive Loss

During the years ended December 31, 2016, 2015 and 2014, the Company did not have any other comprehensive income or loss, and therefore, the net loss and comprehensive loss was the same for all periods presented.

(n) Net Loss Per Share Attributable to Common Stockholders

The Company calculates its basic and diluted net loss per share attributable to common stockholders in conformity with the two-class method required for companies with participating securities. All series of convertible preferred stock are considered to be participating securities as the holders of the preferred stock are entitled to receive a non-cumulative dividend on a pro rata *pari passu* basis in the event that a dividend is declared or paid on common stock. Shares of common stock issued upon early exercise of stock options that are subject to repurchase are also considered to be participating securities, because holders of such shares have non-forfeitable dividend rights in the event a dividend is declared or paid on common stock. Under the two-class method, in periods when the Company has net income, net income attributable to common stockholders is determined by allocating undistributed earnings, calculated as net income less current period convertible preferred stock non-cumulative dividends, between common stock and the convertible preferred stock. In computing

2. Summary of Significant Accounting Policies (Continued)

diluted net income attributable to common stockholders, undistributed earnings are re-allocated to reflect the potential impact of dilutive securities. The Company's basic net loss per share attributable to common stockholders is calculated by dividing the net loss attributable to common stockholders by the weighted-average number of shares of common stock outstanding for the period. The diluted net loss per share attributable to common stockholders is computed by giving effect to all potential dilutive common stock equivalents outstanding for the period. The dilutive effect of these potential common shares is reflected in diluted earnings per share by application of the treasury stock method. For purposes of this calculation, convertible preferred stock, options to purchase common stock, unvested restricted stock units, common stock issued subject to future vesting, any shares of stock committed under the ESPP, any shares of stock held in escrow and any shares of stock reserved for future donations are considered common stock equivalents but have been excluded from the calculation of diluted net loss per share attributable to common stockholders as their effect is antidilutive.

Since the Company's IPO, Class A and Class B common stock are the only outstanding equity of the Company. The rights of the holders of Class A and Class B common stock are identical, except with respect to voting and conversion. Each share of Class A common stock is entitled to one vote per share and each share of Class B common stock is entitled to 10 votes per share. Shares of Class B common stock may be converted into Class A common stock at any time at the option of the stockholder on a one-for-one basis, and are automatically converted into Class A common stock upon sale or transfer, subject to certain limited exceptions. Shares of Class A common stock are not convertible.

(o) Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash equivalents consist of funds deposited into money market funds. All credit and debit card transactions that process as of the last day of each month and settle within the first few days of the subsequent month are also classified as cash and cash equivalents as of the end of the month in which they were processed.

(p) Restricted Cash

Restricted cash consists of cash deposited into a savings account with a financial institution as collateral for the Company's obligations under its facility leases of premises located in San Francisco, California. The facility lease for the Company's old office space expired in January 2017, as amended, and the facility lease for the Company's new office space expires in October 2024.

(q) Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded net of the allowance for doubtful accounts and the reserve for sales credits. The allowance for doubtful accounts is estimated based on the Company's assessment of its ability to collect on customer accounts receivable. The Company regularly reviews the allowance by considering certain factors such as historical experience, credit quality, age of accounts receivable balances and other known conditions that may affect a customer's ability to pay. In cases where the Company is aware of circumstances that may impair a specific customer's ability to meet their financial obligations, a specific allowance is recorded against amounts due from the customer which reduces the net recognized receivable to the amount the Company reasonably believe will be collected. The

2. Summary of Significant Accounting Policies (Continued)

Company writes-off accounts receivable against the allowance when a determination is made that the balance is uncollectible and collection of the receivable is no longer being actively pursued. The allowance for doubtful accounts was $1.1 million and $0.5 million as of December 31, 2016 and 2015, respectively.

(r) Costs Related to the Public Offerings

Costs related to the public offerings, which consist of direct incremental legal, printing and accounting fees, are deferred until the offering is completed. Upon completion of the offering, these costs are offset against the offering proceeds within the consolidated statements of stockholders' equity. As of December 31, 2016, the Company recorded in its consolidated statement of stockholders' equity $5.7 million in total offering costs, of which $4.9 million and $0.8 million related to the IPO and the FPO, respectively.

As of December 31, 2015, the Company had $2.0 million of deferred offering costs that were recorded as prepaid expenses and other current assets in the accompanying consolidated balance sheet.

(s) Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful life of the related asset. Maintenance and repairs are charged to expenses as incurred.

The useful lives of property and equipment are as follows:

Capitalized software development costs	3 years
Office equipment	3 years
Furniture and fixtures	5 years
Software	3 years
Leasehold improvements	Shorter of 5 years or remaining lease term

(t) Intangible Assets

Intangible assets recorded by the Company are costs directly associated with securing legal registration of patents and trademarks, acquiring domain names and the fair value of identifiable intangible assets acquired in business combinations.

Intangible assets with determinable economic lives are carried at cost, less accumulated amortization. Amortization is computed over the estimated useful life of each asset on a straight-line basis. The Company determines the useful lives of identifiable intangible assets after considering the specific facts and circumstances related to each intangible asset. Factors the Company considers when determining useful lives include the contractual term of any agreement related to the asset, the historical performance of the asset, the Company's long-term strategy for using the asset, any laws or other local regulations which could impact the useful life of the asset and other economic factors,

2. Summary of Significant Accounting Policies (Continued)

including competition and specific market conditions. Intangible assets without determinable economic lives are carried at cost, not amortized and reviewed for impairment at least annually.

The useful lives of the intangible assets are as follows:

Developed technology	3 years
Customer relationship	5 years
Trade names	2 years
Patents	20 years
Trademarks	Indefinite
Domain names	Indefinite

(u) Goodwill

Goodwill represents excess of the aggregate purchase price over the fair value of net identifiable assets acquired in a business combination. Goodwill is not amortized and is tested for impairment at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Company has determined that it operates as one reporting unit and has selected November 30 as the date to perform its annual impairment test. In the valuation of goodwill, management must make assumptions regarding estimated future cash flows to be derived from the Company's business. If these estimates or their related assumptions change in the future, the Company may be required to record impairment for these assets. Management may first evaluate qualitative factors to assess if it is more likely than not that the fair value of a reporting unit is less than its carrying amount and to determine if a two-step impairment test is necessary. Management may choose to proceed directly to the two-step evaluation, bypassing the initial qualitative assessment. The first step of the impairment test involves comparing the fair value of the reporting unit to its net book value, including goodwill. If the net book value exceeds its fair value, then the Company would perform the second step of the goodwill impairment test to determine the amount of the impairment loss. The impairment loss would be calculated by comparing the implied fair value of the goodwill to its net book value. In calculating the implied fair value of goodwill, the fair value of the entity would be allocated to all of the other assets and liabilities based on their fair values. The excess of the fair value of the entity over the amount assigned to other assets and liabilities is the implied fair value of goodwill. An impairment loss would be recognized when the carrying amount of goodwill exceeds its implied fair value. No goodwill impairment charges have been recorded for any period presented.

(v) Impairment of Long-Lived Assets

The Company evaluates long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets held and used is measured by a comparison of the carrying amount of an asset or an asset group to estimated undiscounted future net cash flows expected to be generated by the asset or asset group. If such evaluation indicates that the carrying amount of the asset or the asset group is not recoverable, any impairment loss would be equal to the amount the carrying value exceeds the fair value. There was no impairment during the years ended December 31, 2016, 2015 and 2014. The value of the internally-developed software written-off due to abandonment was $0.7 million, $0.1 million and none in the years ended December 31, 2016, 2015 and 2014, respectively.

2. Summary of Significant Accounting Policies (Continued)

(w) Deferred Revenue

Deferred revenue consists of cash deposits from customers to be applied against future usage and customer billings in advance of revenues being recognized from the Company's contracts. Deferred revenue is generally expected to be recognized during the succeeding 12-month period and is thus recorded as a current liability.

(x) Business Combinations

The Company recognizes identifiable assets acquired and liabilities assumed at their acquisition date fair values. Goodwill is measured as the excess of the consideration transferred over the fair value of assets acquired and liabilities assumed on the acquisition date. While the Company uses its best estimates and assumptions as part of the purchase price allocation process to accurately value assets acquired and liabilities assumed, these estimates are inherently uncertain and subject to refinement. The authoritative guidance allows a measurement period of up to one year from the date of acquisition to make adjustments to the preliminary allocation of the purchase price. As a result, during the measurement period the Company may record adjustments to the fair values of assets acquired and liabilities assumed, with the corresponding offset to goodwill to the extent that it identifies adjustments to the preliminary purchase price allocation. Upon conclusion of the measurement period or final determination of the values of the assets acquired and liabilities assumed, whichever comes first, any subsequent adjustments will be recorded to the consolidated statement of operations.

(y) Segment Information

The Company's Chief Executive Officer is the chief operating decision maker, who reviews the Company's financial information presented on a consolidated basis for purposes of allocating resources and evaluating the Company's financial performance. Accordingly, the Company has determined that it operates in a single reporting segment.

(z) Fair Value of Financial Instruments

The Company records certain of its financial assets at fair value on a recurring basis. The Company's financial instruments, which include cash, cash equivalents, accounts receivable and accounts payable are recorded at their carrying amounts, which approximate their fair values due to their short-term nature. Restricted cash is long-term in nature. However, it consists of cash in a savings account, hence its carrying amount approximates its fair value. The accounting guidance for fair value provides a framework for measuring fair value, clarifies the definition of fair value, and expands disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The accounting guidance establishes a three-tiered hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value as follows:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

2. Summary of Significant Accounting Policies (Continued)

- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

(aa) Recent Accounting Pronouncements Not Yet Adopted

In January 2017, the FASB issued ASU 2017-04, "*Simplifying the Test for Goodwill Impairment*", which removes the second step of the goodwill impairment test that requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. This guidance is effective for interim and annual reporting periods beginning after December 15, 2019 and will be applied prospectively. Management does not expect the adoption of this guidance to have any impact on the Company's financial position, results of operations or cash flows.

In January 2017, the FASB issued ASU 2017-01, "*Business Combinations (Topic 805) Clarifying the Definition of a Business",* which amends the guidance of FASB Accounting Standards Codification Topic 805, "*Business Combinations*", adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. This guidance is effective for annual and interim periods beginning after December 15, 2017, and early adoption is permitted under certain circumstances. The Company will evaluate the impact of this guidance on its financial statements and related disclosures next time there is a potential business combination.

In November 2016, the FASB issued ASU 2016-18, *"Restricted Cash"*, which requires a statement of cash flows to explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash and restricted cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance is effective for annual and interim periods beginning after December 15, 2017, and early adoption is permitted. The Company is evaluating the impact of this guidance on its consolidated financial statements and related disclosures.

In October 2016, the FASB issued ASU 2016-16, *"Intra-Entity Transfers Other Than Inventory"*, which requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This guidance is effective for annual and interim periods beginning after December 15, 2017, and early adoption is permitted. The Company is evaluating the impact of this guidance on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, *"Financial Instruments—Credit Losses: Measurement of Credit Losses on Financial Instruments"*, which changes the impairment model for most financial assets. The new model uses a forward-looking expected loss method, which will generally result in earlier recognition of allowances for losses. This guidance is effective for annual and interim periods beginning after December 15, 2019 and early adoption is permitted for annual and interim periods beginning after December 15, 2018. The Company is evaluating the impact of this guidance on its consolidated financial statements and related disclosures.

2. Summary of Significant Accounting Policies (Continued)

In February 2016, the FASB issued ASU No. 2016-02, "*Leases*." The standard will affect all entities that lease assets and will require lessees to recognize a lease liability and a right-of-use asset for all leases (except for short-term leases that have a duration of less than one year) as of the date on which the lessor makes the underlying asset available to the lessee. For lessors, accounting for leases is substantially the same as in prior periods. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. For leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, lessees and lessors must apply a modified retrospective transition approach. While the Company expects the adoption of this standard to result in an increase to its reported assets and liabilities, the Company has not yet determined the full impact that the adoption of this standard will have on its consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU 2014-09, "*Revenue from Contracts with Customers*". This new guidance will replace most existing U.S. GAAP guidance on this topic. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14 which deferred, by one year, the effective date for the new revenue reporting standard for entities reporting under U.S. GAAP. In accordance with the deferral, this guidance will be effective for the Company beginning January 1, 2018 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 permitted beginning January 1, 2017. In March 2016, the FASB issued ASU 2016-08, "*Revenue from Contracts with Customers, Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*" clarifying the implementation guidance on principal versus agent considerations. Specifically, an entity is required to determine whether the nature of a promise is to provide the specified good or service itself (that is, the entity is a principal) or to arrange for the good or service to be provided to the customer by the other party (that is, the entity is an agent). The determination influences the timing and amount of revenue recognition. In April 2016, the FASB issued ASU 2016-10, *"Revenue from Contracts with Customers, Identifying Performance Obligations and Licensing"*, clarifying the implementation guidance on identifying performance obligations and licensing. Specifically, the amendments reduce the cost and complexity of identifying promised goods or services and improve the guidance for determining whether promises are separately identifiable. The amendments also provide implementation guidance on determining whether an entity's promise to grant a license provides a customer with either a right to use the entity's intellectual property (which is satisfied at a point in time) or a right to access the entity's intellectual property (which is satisfied over time). In May 2016, the FASB issued ASU 2016-12 *"Revenue from Contracts with Customers (Topic 606), Narrow-Scope Improvements and Practical Expedients"*, which amends the guidance on transition, collectability, noncash consideration and the presentation of sales and other similar taxes. ASU 2016-12 clarifies that, for a contract to be considered completed at transition, all (or substantially all) of the revenue must have been recognized under legacy GAAP. In addition, ASU 2016-12 clarifies how an entity should evaluate the collectability threshold and when an entity can recognize nonrefundable consideration received as revenue if an arrangement does not meet the standard's contract criteria. Finally, ASU 2016-20 makes minor corrections or minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The effective date and transition requirements for ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20 are the same as the effective date and

2. Summary of Significant Accounting Policies (Continued)

transition requirements for ASU 2014-09. The Company is currently evaluating the impact that these ASUs will have on its consolidated financial statements and related disclosures and expects to complete this evaluation in the first quarter of 2017. The Company anticipates disclosing its selected transition method in conjunction with the filing of its quarterly report on Form 10-Q for the quarter ending March 31, 2017.

3. Fair Value Measurements

The following table provides the assets measured at fair value on a recurring basis as of December 31, 2016 and 2015 (in thousands):

	Total Carrying Value	As of December 31, 2016			
		Level I	Level 2	Level 3	Total
Financial Assets:					
Money market funds (included in cash and cash equivalents)	$274,135	$274,135	$—	$—	$274,135
Total financial assets	$274,135	$274,135	$—	$—	$274,135

	Total Carrying Value	As of December 31, 2015			
		Level 1	Level 2	Level 3	Total
Financial Assets:					
Money market funds (included in cash and cash equivalents)	$80,886	$80,886	$—	$—	$80,886
Total financial assets	$80,886	$80,886	$—	$—	$80,886

There were no realized or unrealized losses for the years ended December 31, 2016, 2015 and 2014. There were no other-than-temporary impairments for these instruments as of December 31, 2016 and 2015.

4. Property and Equipment

Property and equipment consisted of the following (in thousands):

	As of December 31,	
	2016	2015
Capitalized software development costs	$ 28,661	$16,030
Leasehold improvements	14,063	568
Office equipment	5,729	2,662
Furniture and fixtures	1,576	393
Software	968	755
Total property and equipment	50,997	20,408
Less: accumulated depreciation and amortization	(13,445)	(6,350)
Total property and equipment, net	$ 37,552	$14,058

4. Property and Equipment (Continued)

Depreciation and amortization expense was $7.4 million, $3.7 million and $1.7 million for the years ended December 31, 2016, 2015 and 2014, respectively.

The Company capitalized $13.5 million, $9.4 million and $3.9 million in software development costs in the years ended December 31, 2016, 2015 and 2014, respectively, of which $2.0 million, $1.0 million and $0.3 million, respectively, was stock-based compensation expense. Amortization of capitalized software development costs was $5.5 million, $2.8 million and $1.2 million in the years ended December 31, 2016, 2015 and 2014, respectively. The amortization expense was allocated as follows (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Cost of revenue	$3,304	$1,793	$ 783
Research and development	2,182	1,045	415
Total	$5,486	$2,838	$1,198

5. Business Combinations

Acquisition of Authy, Inc.

On February 23, 2015, the Company completed its acquisition of Authy, Inc. (“Authy”), a Delaware corporation with operations in Bogota, Colombia and San Francisco, California. Authy had developed a two-factor authentication online security solution. The Company’s purchase price of $6.1 million for all of the outstanding shares of capital stock of Authy consisted of $3.0 million in cash and $3.1 million representing the fair value of 389,733 shares of the Company’s Series T convertible preferred stock, of which 180,000 shares are held in escrow. This escrow was effective until the first anniversary of the closing date, and has continued beyond that date as a result of certain circumstances. As of December 31, 2016, the Company has not released any shares out of the escrow. Additionally, the Company issued 507,885 shares of its Series T convertible preferred stock, which converted into shares of Class B common stock immediately prior to the closing of the IPO, to a former shareholder of Authy that had a fair value of $4.0 million and were subject to a service condition over a period of three years, as amended. In August 2016 the unvested shares were reduced by 127,054 shares due to the non-fulfillment of certain conditions of the merger agreement. In December 2016, all remaining unvested shares vested.

The acquisition was accounted for as a business combination and, accordingly, the total purchase price was allocated to the identifiable tangible and intangible assets acquired and the liabilities assumed based on their respective fair values on the acquisition date. The cost of shares subject to vesting and performance conditions was accounted for as a post-acquisition compensation expense and recorded as research and development expense in the accompanying consolidated statements of operations. The Company recorded $2.4 million and $0.6 million of stock-based compensation expense related to these shares in the years ended December 31, 2016 and 2015, respectively.

Authy’s results of operations have been included in the consolidated financial statements of the Company from the date of acquisition.

5. Business Combinations (Continued)

This transaction was intended to qualify as a tax-free reorganization under Section 368(a) of the IRS Code.

The fair value of the Series T convertible preferred stock was determined by the board of directors of the Company with input from a third-party valuation consultant.

The following table presents the purchase price allocation recorded in the Company's consolidated balance sheet on the acquisition date (in thousands):

	Total
Net tangible assets(3)	$1,217
Goodwill(1)(3)	3,113
Intangible assets(2)	1,760
Total purchase price	$6,090

The Company acquired a net deferred tax liability of $0.1 million in this business combination.

(1) Goodwill represents the excess of purchase price over the fair value of identifiable tangible and intangible assets acquired and liabilities assumed. The goodwill in this transaction is primarily attributable to the future cash flows to be realized from the acquired technology platform, existing customer base and the future development initiatives of the assembled workforce. None of the goodwill is deductible for tax purposes.

(2) Identifiable finite-lived intangible assets were comprised of the following:

	Total	Estimated life (in years)
Developed technology	$1,300	3
Customer relationships	400	5
Trade name	60	2
Total intangible assets acquired	$1,760	

(3) As part of net tangible assets, the Company acquired $66,000 in accounts receivable subject to dispute resolution with a customer. The matter was resolved later in 2015 and $52,000 was deemed uncollectible immediately prior to the date of acquisition. The Company's adjustment of its initial purchase price allocation resulted in an increase to goodwill and decrease to net tangible assets of $52,000. After the adjustment, the purchase price allocation related to this acquisition became final. Goodwill balance as of December 31, 2015 was as follows:

	Total
Balance as of December 31, 2014	$ —
Goodwill recorded in connection with Authy acquisition	3,113
Subsequent adjustment to purchase price allocation	52
Balance as of December 31, 2015	$3,165

The estimated fair value of the intangible assets acquired was determined by the Company, and the Company considered or relied in part upon a valuation report of a third-party expert. The Company used an income approach to measure the fair values of the developed technology and trade names based on the relief-from-royalty method. The Company used an income approach to measure the fair value of the customer relationships based on the multi-period excess earnings method, whereby

5. Business Combinations (Continued)

the fair value is estimated based upon the present value of cash flows that the applicable asset is expected to generate.

The Company incurred costs related to this acquisition of $1.5 million, of which $1.2 million and $0.3 million were incurred during the years ended December 31, 2015 and 2014, respectively. All acquisition related costs were expensed as incurred and have been recorded in general and administrative expenses in the accompanying consolidated statements of operations.

Pro forma results of operations for this acquisition have not been presented as the financial impact to the Company's consolidated financial statements is immaterial.

Acquisition of Certain Assets behind the Kurento Open Source Project

In November 2016, the Company acquired certain assets from Tikal Technologies S.L., a Spanish corporation, behind the Kurento Open Source Project. The acquired assets consisted of (a) proprietary WebRTC media processing technologies, (b) certain licenses, patents and trademarks and (c) certain employee relationships behind the WebRTC technology. The purchase price consisted of $8.5 million in cash, of which $1.5 million was placed into an escrow to indemnify the Company against breaches of general representations, warranties, claims and tax compliance matters. The escrow is effective for 24 months and 10 days from the acquisition date and may be extended under certain circumstances.

The acquisition was accounted for as business combination and, accordingly, the total purchase price was allocated to the identifiable intangibles assets acquired based on their respective fair values on the acquisition date. The excess of the purchase price over the fair values of the identifiable assets acquired was recorded as goodwill. The Company considered or relied in part upon a valuation report of a third-party expert.

The following table presents the purchase price allocation recorded in the Company's consolidated balance sheet on the acquisition date (in thousands):

	Total
Intangible assets(1)	$8,100
Goodwill(2)	400
Total purchase price	$8,500

(1) The intangible assets consist of developed technology with the estimated useful life of 3 years on the date of acquisition.

(2) The goodwill in this transaction is primarily attributable to the future cash flows to be realized from the acquired technology and the future development initiatives of the acquired workforce. The goodwill is deductible for tax purposes.

The Company incurred cost related to this acquisition of $0.1 million that were expensed as incurred and have been recorded in general and administrative expenses in the accompanying consolidated statement of operations.

6. Goodwill and Intangible Assets

Goodwill

Goodwill balance as of December 31, 2016 and 2015 was as follows:

Balance as of December 31, 2014	$ —
Goodwill recorded in connection with Authy acquisition	3,165
Balance as of December 31, 2015	3,165
Goodwill recorded in connection with Kurento acquisition	400
Balance as of December 31, 2016	$3,565

Intangible assets

Intangible assets consisted of the following (in thousands):

	As of December 31, 2016		
	Gross	Accumulated Amortization	Net
Amortizable intangible assets:			
Developed technology	$ 9,400	$(1,140)	$ 8,260
Customer relationships	400	(148)	252
Trade name	60	(56)	4
Patent	1,512	(55)	1,457
Total amortizable intangible assets	11,372	(1,399)	9,973
Non-amortizable intangible assets:			
Domain names	32	—	32
Trademarks	263	—	263
Total	$11,667	$(1,399)	$10,268

	As of December 31, 2015		
	Gross	Accumulated Amortization	Net
Developed technology	$1,300	$(370)	$ 930
Customer relationships	400	(68)	332
Trade name	60	(26)	34
Patent	1,021	(25)	996
Total	$2,781	$(489)	$2,292

Amortization expense was $0.9 million, $0.5 million and $17,000 for the years ended December 31, 2016, 2015 and 2014, respectively.

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6. Goodwill and Intangible Assets (Continued)

Total estimated future amortization expense was as follows (in thousands):

	As of December 31, 2016
2017	$3,263
2018	2,890
2019	2,488
2020	58
2021	46
Thereafter	1,228
Total	$9,973

7. Accrued Expenses and Other Liabilities

Accrued expenses and other current liabilities consisted of the following (in thousands):

	As of December 31,	
	2016	2015
Accrued payroll and related	$ 7,497	$ 972
Accrued bonus and commission	2,251	1,832
Accrued cost of revenue	8,741	6,496
Sales and other taxes payable	28,795	17,634
Deferred rent	1,250	206
Accrued other expense	10,774	4,858
Total accrued expenses and other current liabilities	$59,308	$31,998

Other long-term liabilities consisted of the following (in thousands):

	As of December 31,	
	2016	2015
Deferred rent	$9,387	$364
Accrued other expense	156	84
Total other long-term liabilities	$9,543	$448

8. Supplemental Balance Sheet Information

A roll-forward of the Company's reserves for the years ended December 31, 2016, 2015 and 2014 is as follows (in thousands):

Allowance for doubtful accounts:

	Year Ended December 31,		
	2016	2015	2014
Balance, beginning of period	$ 486	$ 210	$ 98
Additions	1,145	705	261
Write-offs	(555)	(429)	(149)
Balance, end of period	$1,076	$ 486	$ 210

Sales credit reserve:

	Year Ended December 31,		
	2016	2015	2014
Balance, beginning of period	$ 714	$ 312	$ 30
Additions	1,348	1,210	683
Deductions against reserve	(1,518)	(808)	(401)
Balance, end of period	$ 544	$ 714	$ 312

9. Revenue by Geographic Area

Revenue by geographic area is based on the IP address at the time of registration. The following table sets forth revenue by geographic area (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Revenue by geographic area:			
United States	$233,922	$143,145	$78,251
International	43,413	23,774	10,595
Total	$277,335	$166,919	$88,846
Percentage of revenue by geographic area:			
United States	84%	86%	88%
International	16%	14%	12%

Long-lived assets outside the United States were insignificant.

10. Credit Facility

The Company entered into a $5.0 million revolving line of credit on January 15, 2013, which expired in January 2015 and was not renewed. The Company did not borrow against this line of credit.

10. Credit Facility (Continued)

Effective January 2015, the Company entered into a $15.0 million revolving credit agreement. Under this agreement, amounts available to be borrowed are based on the Company's prior month's monthly recurring revenue. Advances on the line of credit bear interest payable monthly at Wall Street Journal prime rate plus 1%. Borrowings are secured by substantially all of the Company's assets, with limited exceptions. If there are borrowings under the credit line, there are certain restrictive covenants with which the Company must comply. The credit facility expires in March 2017. As of December 31, 2016 and 2015, the total amount available to the Company to be borrowed was $15.0 million and the Company had no outstanding balance on this credit facility.

11. Commitments and Contingencies

(a) Lease Commitments

The Company entered into various non-cancelable operating lease agreements for its facilities that expire over the next seven years. Certain operating leases contain provisions under which monthly rent escalates over time. When lease agreements contain escalating rent clauses or free rent periods, the Company recognizes rent expense on a straight-line basis over the term of the lease.

In January 2016, the Company entered into a lease agreement ("Lease"), as subsequently amended, for approximately 90,000 square feet of new office space at 375 Beale Street in San Francisco, California, that houses its principal executive office. This office space replaced the Company's existing principal office at 645 Harrison Street in San Francisco, California, for which the lease was terminated in January 2017.

The term of the Lease is approximately 96 months following the commencement in October 2016, and the lease payments range from $0.4 million per month in the first 60 months to $0.5 million per month thereafter. Additionally, the Lease included a tenant improvement allowance, which provided for the landlord to pay for tenant improvements on behalf of the Company for up to $8.3 million. Of this amount, $2.6 million was collected in the fourth quarter of 2016. The corresponding asset and liability were recorded on the lease inception date in the current assets and current and long-term liabilities in the accompanying consolidated balance sheet. Based on the terms of this landlord incentive and involvement of the Company in the construction process, the leasehold improvements purchased under the landlord incentive were determined to be property of the Company. The Company secured its lease obligation with a $7.4 million letter of credit, which it designated as restricted cash on its balance sheet as of December 31, 2016. The Company began recording the lease expense on a straight-line basis in the second quarter of 2016.

Rent expense was $7.3 million, $4.1 million and $2.6 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Additionally, the Company has contractual commitments with its cloud infrastructure provider, network service providers and other vendors that are non-cancellable and expire within one to five years.

11. Commitments and Contingencies (Continued)

Future minimum lease payments under non-cancelable operating leases were as follows (in thousands):

Year Ending December 31:[1]	As of December 31, 2016
2017	$ 7,534
2018	6,979
2019	7,165
2020	7,037
2021	7,033
Thereafter	16,052
Total minimum lease payments	$51,800

(1) The future minimum lease payments related to the 375 Beale Street lease do not include the tenant improvement allowance available under the lease.

Future minimum payments under other existing noncancellable purchase obligations were as follows (in thousands). Unrecognized tax benefits are not included in these amounts because any amounts expected to be settled in cash are not material:

Year Ending December 31:	As of December 31, 2016
2017	$19,034
2018	19,373
2019	23,498
2020	68
2021	23
Total payments	$61,996

(b) Legal Matters

On April 30, 2015, Telesign Corporation, or Telesign, filed a lawsuit against the Company in the United States District Court, Central District of California ("Telesign I"). Telesign alleges that the Company is infringing three U.S. patents that it holds: U.S. Patent No. 8,462,920 ("'920"), U.S. Patent No. 8,687,038 ("'038") and U.S. Patent No. 7,945,034 ("'034"). The patent infringement allegations in the lawsuit relate to the Company's Programmable Authentication products, its two-factor authentication use case and an API tool to find information about a phone number. The Company has petitioned the U.S. Patent and Trademark Office for *inter partes* review of the patents at issue. On March 9, 2016, the District Court stayed the court case pending the resolution of those proceedings. On June 28, 2016, the Patent and Trademark Office instituted the *inter partes* review of the '034 patent, briefing on which has now begun, including Telesign's contingent motion to amend the '034 patent. On July 8, 2016, the Patent and Trademark Office denied the Company's petition for *inter partes* review of the '920 and '038 patents. The Company subsequently petitioned for rehearing on this decision, and the request for rehearing was fully briefed by both parties on October 11, 2016. On July 20, 2016, Telesign

11. Commitments and Contingencies (Continued)

applied to the court to lift the stay on Telesign I. The Company opposed the request, and on September 15, 2016, the court denied the request to lift the stay on Telesign I. On November 15, 2016, the Patent and Trademark Office denied the Company's request for rehearing on the denied petitions for *inter partes* review. On December 20, 2016, the Company filed a reply to Telesign's opposition to the '034 *inter partes* review and simultaneously filed an opposition to Telesign's motion to amend the '034 patent. On January 23, 2017 Telesign filed its reply to the Company's opposition to the motion to amend. The hearing on the '034 *inter partes* review is scheduled for March 2017.

On March 28, 2016, Telesign filed a second lawsuit against the Company in the United States District Court, Central District of California ("Telesign II"), alleging infringement of U.S. Patent No. 9,300,792 ("'792") held by Telesign. The '792 patent is in the same patent family as the '920 and '038 patents asserted in Telesign I, and the infringement allegations in Telesign II relate to the Company's Programmable Authentication products and its two-factor authentication use case. On May 23, 2016, the Company moved to dismiss the complaint in Telesign II. On August 3, 2016, the United States District Court, Central District of California, issued an order granting Twilio's motion to dismiss Telesign's complaint with leave to amend. Telesign filed an amended complaint on September 2, 2016 and the Company moved to dismiss the amended complaint on September 16, 2016. On November 7, 2016, the Company's motion to dismiss was denied, and the Company filed its answer to the first amended complaint on November 21, 2016. With respect to each of the patents asserted in Telesign I and Telesign II, the complaints seek, among other things, to enjoin the Company from allegedly infringing the patents, along with damages for lost profits.

On December 1, 2016, the Company filed a patent infringement lawsuit against Telesign in the United States District Court, Northern District of California, alleging indirect infringement of Unites States Patent No. 8,306,021, United States Patent No. 8,837,465, United States Patent No. 8,755,376, United States Patent No. 8,736,051, United States Patent No. 8,737,962, United States Patent No. 9,270,833, and United States Patent No. 9,226,217. Telesign filed a motion to dismiss the complaint on January 25, 2017.

On February 18, 2016, a putative class action complaint was filed in the Alameda County Superior Court in California, entitled Angela Flowers v. Twilio Inc. The complaint alleges that the Company's products permit the interception, recording and disclosure of communications at a customer's request and are in violation of the California Invasion of Privacy Act. The complaint seeks injunctive relief as well as monetary damages. On May 27, 2016, the Company filed a demurrer to the complaint. On August 2, 2016, the court issued an order denying the demurrer in part and granted it in part, with leave to amend by August 18, 2016 to address any claims under California's Unfair Competition Law. The plaintiff opted not to amend the complaint. Discovery has already begun, and will continue until August 2017, when the plaintiff must file their motion for class certification.

The Company intends to vigorously defend these lawsuits and believes it has meritorious defenses to each. It is too early in these matters to reasonably predict the probability of the outcomes or to estimate ranges of possible losses.

In addition to the litigation matters discussed above, from time to time, the Company is a party to legal action and subject to claims that arise in the ordinary course of business. The claims are investigated as they arise and loss estimates are accrued, when probable and reasonably estimable. While it is not feasible to predict or determine the ultimate outcome of these matters, the Company

11. Commitments and Contingencies (Continued)

believes that these legal proceedings will not have a material adverse effect on its financial position or results of operations.

(c) Indemnification Agreements

The Company has signed indemnification agreements with all of its board members and executive officers. The agreements indemnify the board members and the executive officers from claims and expenses on actions brought against the individuals separately or jointly with the Company for certain indemnifiable events. Indemnifiable events generally mean any event or occurrence related to the fact that the board member or the executive officer was or is acting in his or her capacity as a board member or an executive officer for the Company or was or is acting or representing the interests of the Company.

In the ordinary course of business, the Company enters into contractual arrangements under which it agrees to provide indemnification of varying scope and terms to business partners and other parties with respect to certain matters, including, but not limited to, losses arising out of the breach of such agreements, intellectual property infringement claims made by third parties and other liabilities relating to or arising from the Company's various products, or its acts or omissions. In these circumstances, payment may be conditional on the other party making a claim pursuant to the procedures specified in the particular contract. Further, the Company's obligations under these agreements may be limited in terms of time and/or amount, and in some instances, the Company may have recourse against third parties for certain payments. The terms of such obligations may vary. As of December 31, 2016 and 2015, no amounts had been accrued.

(d) Other Taxes

The Company conducts operations in many tax jurisdictions throughout the United States. In many of these jurisdictions, non-income-based taxes, such as sales and use and telecommunications taxes are assessed on the Company's operations. Historically, the Company has not billed or collected these taxes and, in accordance with U.S. GAAP, has recorded a provision for its tax exposure in these jurisdictions when it is both probable that a liability has been incurred and the amount of the exposure can be reasonably estimated. As a result, the Company recorded a liability of $28.8 million and $17.6 million as of December 31, 2016 and 2015, respectively. These estimates include several key assumptions including, but not limited to, the taxability of the Company's services, the jurisdictions in which its management believes it has nexus, and the sourcing of revenues to those jurisdictions. In the event these jurisdictions challenge management's assumptions and analysis, the actual exposure could differ materially from the current estimates.

12. Stockholders' Equity

(a) Convertible Preferred Stock

As of December 31, 2015, the Company had outstanding Series A, B, C, D, E and T convertible preferred stock (individually referred to as "Series A, B, C, D, E or T" or collectively "Preferred Stock") as follows (in thousands, except share data).

12. Stockholders' Equity (Continued)

Immediately prior to the completion of the IPO, all shares of convertible preferred stock then outstanding were automatically converted into 54,508,441 shares of common stock on a one-to-one basis, and then reclassified as shares of Class B common stock.

	As of December 31, 2015			
	Shares Authorized	**Shares Issued and Outstanding**	**Aggregate Liquidation preference**	**Proceeds, Net of Issuance Costs**
Series A	13,173,240	13,076,491	$ 4,590	$ 4,592
Series B	11,416,062	11,146,895	11,717	11,658
Series C	8,452,864	8,452,864	25,250	25,196
Series D	9,440,324	9,440,324	70,000	69,930
Series E	11,494,249	11,494,249	130,000	125,448
Series T	5,000,000	897,618(1)	9	—(2)
Total	58,976,739	54,508,441	$241,566	$236,824

(1) The outstanding shares include 687,885 shares held in escrow as of December 31, 2015 related to the Authy acquisition. Of these shares, 507,885 shares were subject to graded vesting over a period of three years, as amended, and had a fair value of $4.0 million. A total of 127,054 shares were subject to certain performance conditions and were returned to the issuer in the third quarter 2016 due to the non-fulfillment of certain conditions of the merger agreement. All remaining unvested shares vested in the fourth quarter of 2016.

(2) 389,733 shares were issued as part of the purchase price for Authy acquisition and had a fair value of $3.1 million on the acquisition closing date.

The holders of the Company's Preferred Stock had the following rights, preferences and privileges:

Conversion

At any time following the date of issuance, each share of Preferred Stock is convertible, at the option of its holder, into the number of shares of common stock which results from dividing the applicable original issue price per share for each series by the applicable conversion price per share for such series, on the date of conversion. As of December 31, 2015, the initial conversion prices per share of all series of preferred stock were equal to the original issue prices of each series and therefore the conversion ratio was 1:1.

Each share of preferred stock shall be automatically converted into shares of common stock immediately upon the earlier of (i) the consummation of a firmly underwritten public offering pursuant to the Securities Act of 1933, as amended, the public offering price of which is not less than $50.0 million in aggregate; or (ii) the date specified by the written consent of holders of a majority of the outstanding shares of preferred stock, voting together as a class of shares on an as-converted basis. In addition, the conversion of each of the Series B, Series C, Series D and Series E preferred stock in connection with a Liquidation Event defined below requires the written consent of a majority of such series, if the proceeds payable to each of these series is less than the respective original issuance price.

A Liquidation Event includes (i) a sale, lease or other disposition of all or substantially all of the Company's assets, (ii) a merger or consolidation of the Company into another entity (except where the merger results in the holders of the Company's stock prior to merger continuing to hold at least 50% of the voting power of the capital stock of the Company or the surviving or acquiring entity), (iii) the

12. Stockholders' Equity (Continued)

transfer of the Company's securities to a person, or a group of affiliated persons, if, after such a transfer, such person or group of persons holds 50% or more of the outstanding voting stock of the Company, (iv) the grant of an exclusive, irrecoverable license to all or substantially all of the Company's intellectual property or (v) a liquidation, dissolution or winding up of the Company.

In the event the Company issues any additional stock, as defined in the Company's Certificate of Incorporation, after the preferred stock original issue date, without consideration or for a consideration per share less than the conversion price applicable to a series of preferred stock in effect immediately prior to such issuance, the conversion price for such series in effect immediately prior to each such issuance shall be adjusted according to a formula set forth in the Company's Certificate of Incorporation.

Voting

The holders of Preferred Stock and the holders of common stock vote together and not as separate classes, except in cases specifically provided for in the Certificate of Incorporation or as provided by law.

The holders of each share of Preferred Stock has the right to one vote for each share of common stock into which such Preferred Stock could be converted, and, with respect to such vote, holders of Preferred Stock have full voting rights and powers equal to the voting rights and powers of the holders of common stock, with the exception of voting for the election of directors referred to below.

As long as a majority of the shares of Series A preferred stock originally issued remain outstanding, the holders of such shares, voting as a separate class, shall be entitled to elect one director. As long as a majority of the shares of Series B preferred stock originally issued remain outstanding, the holders of such shares, voting as a separate class, shall be entitled to elect one director. As long as at least 2,000,000 shares of Series D preferred stock are outstanding, the holders of such shares, voting as a separate class, shall be entitled to elect one director. The holders of common stock, voting as a separate class, shall be entitled to elect two directors. The holders of shares of Preferred Stock and common stock, voting together as a single class on an as-converted basis, shall be entitled to elect the remaining directors of the Company.

Dividends

The holders of convertible preferred stock are entitled to receive, when and if declared by the board of directors, out of any assets legally available therefor, any dividends as may be declared from time to time by the board of directors. No dividend may be declared or paid on the common stock unless any and all such dividends are distributed among all holders of common stock and preferred stock on a pro rata *pari passu* basis in proportion to the number of shares of common stock that would be held by each such holder if all shares of preferred stock were converted to common stock at the effective conversion rate. The right to receive dividends on shares of preferred stock is non-cumulative. No dividends had been declared or paid by the Company as of December 31, 2015 and through the Company's IPO.

12. Stockholders' Equity (Continued)

Liquidation Preference

In the event of any Liquidation Event of the Company, the holders of Series A, Series B, Series C, Series D and Series E preferred stock ("senior preferred stock") shall be entitled to receive, in preference to any distribution of the proceeds to the holders of Series T preferred stock or common stock, an amount per share equal to the sum of the applicable original issue price for each series of preferred stock (as adjusted for stock splits and combinations as described in the Certificate of Incorporation), plus declared but unpaid dividends on such share. Upon completion of this distribution, the holders of Series T preferred stock shall be entitled to receive in preference to any distribution of the proceeds to the holders of common stock an amount per share equal to the sum of the applicable original issue price for Series T preferred stock, plus declared but unpaid dividends on such share. If the proceeds thus distributed among the holders of the preferred stock are insufficient to permit payment to such holders of the full preferential amounts, then the entire proceeds available for distribution shall be distributed ratably first among the holders of the senior preferred stock in proportion to the full preferential amount that each holder is otherwise entitled to. The original issue price per share of Series A, Series B, Series C, Series D, Series E and Series T convertible preferred stock is equal to $0.35, $1.05, $2.99, $7.42, $11.31 and $0.01, respectively.

Upon completion of the distribution referred to above, all the remaining proceeds available for distribution shall be distributed to the holders of the Company's common stock pro rata based on the number of common stock held by each.

The Company classified the Preferred Stock within shareholders' equity since the shares are not redeemable, and the holders of the Preferred Stock cannot effect a deemed liquidation of the Company outside of the Company control.

(b) Preferred Stock

As of December 31, 2016, the Company had authorized 100,000,000 shares of undesignated preferred stock, par value $0.001, of which no shares were issued and outstanding.

(c) Common Stock

As of December 31, 2015, there were 17,324,003 shares of common stock issued and outstanding.

Immediately prior to the completion of the IPO, all shares of common stock then outstanding were reclassified to Class B common stock. Shares offered and sold in the IPO were the newly authorized shares of Class A common stock.

As of December 31, 2016, the Company had authorized 1,000,000,000 shares of Class A common stock and 100,000,000 shares of Class B common stock, each par value $0.001 per share, of which 49,996,410 shares of Class A common stock and 37,252,138 shares of Class B common stock were issued and outstanding. Holders of Class A and Class B common stock are entitled to one vote per share and 10 votes per share, respectively, and the shares of Class A common stock and Class B common stock are identical, except for voting and conversion rights. As of December 31, 2016, the outstanding Class B common stock included 180,000 shares related to the Authy acquisition that were held in escrow.

12. Stockholders' Equity (Continued)

The Company had reserved shares of common stock for issuance as follows:

	As of December 31,	
	2016	2015
Convertible preferred stock outstanding	—	54,508,441[(1)]
Stock options issued and outstanding	14,649,276	16,883,837
Nonvested restricted stock units issued and outstanding	2,034,217	71,000
Common stock reserved for Twilio.org	680,397	888,022
Stock-based awards available for grant under 2008 Plan	—	14,920
Stock-based awards available for grant under 2016 Plan	10,143,743	—
Common stock reserved for issuance under 2016 ESPP	597,038	—
Total	28,104,671	72,366,220

(1) Includes 687,885 shares of Series T convertible preferred stock related to the Authy acquisition held in escrow as of December 31, 2015.

(d) Stock Repurchases

Following the closing of the Series E convertible preferred stock financing, on August 21, 2015, the Company repurchased an aggregate of 365,916 shares of Series A preferred stock and Series B preferred stock from certain preferred stockholders, and repurchased an aggregate of 1,869,156 shares of common stock from certain current and former employees for $22.8 million in cash, which transaction is referred to as the 2015 Repurchase. The 2015 Repurchase was conducted at a price in excess of the fair value of the Company's common stock at the date of repurchase. No special rights or privileges were conveyed to the employees and former employees. However, not all employees were invited to participate in the 2015 Repurchase. The Company recorded a compensation expense in the amount of $2.0 million for the year ended December 31, 2015, which was the excess of the common stock repurchase price above the fair value of the common stock on the date of repurchase. Of this expense, $0.8 million, $0.1 million and $1.1 million were classified as research and development, sales and marketing and general and administrative expenses, respectively, in the accompanying consolidated statement of operations. The excess of the preferred stock repurchase price above the carrying value of the preferred stock was recorded as a deemed dividend in the year ended December 31, 2015. The Company retired the shares repurchased in the 2015 Repurchase as of August 21, 2015.

(e) Twilio.org

On September 2, 2015, the Company's board of directors approved the establishment of Twilio.org with 888,022 shares of the Company's common stock, which represented 1% of the Company's outstanding capital stock on as-converted basis, reserved to fund Twilio.org's activities. Through Twilio.org, which is a part of the Company and not a separate legal entity, the Company donates and discounts its products to nonprofits, who use the Company's products to engage their audience, expand their reach and focus on making a meaningful change in the world. On May 13, 2016, the Company's board of directors authorized a reduction of 107,625 shares reserved to offset equity grants to Twilio.org employees. On October 20, 2016, the Company completed its follow-on public offering. Of the net proceeds the Company received in the offering, $3.9 million was reserved to fund and support the operations of Twilio.org and the number of shares of Class A common stock reserved for Twilio.org

12. Stockholders' Equity (Continued)

was reduced by 100,000. In December 2016, Twilio.org donated the full $3.9 million proceeds into an independent Donor Advised Fund to further the philanthropic goals of the Company. This amount was recorded as a charitable contribution in the accompanying consolidated statement of operations. As of December 31, 2016, the total remaining shares reserved for Twilio.org was 680,397.

13. Stock-Based Compensation

2008 Stock Option Plan

The Company maintained a stock plan, the 2008 Stock Option Plan, as amended and restated (the "2008 Plan"), which allowed the Company to grant incentive ("ISO"), non-statutory ("NSO") stock options and restricted stock units ("RSU") to its employees, directors and consultants to participate in the Company's future performance through stock-based awards at the discretion of the board of directors. Under the 2008 Plan, options to purchase the Company's common stock could not be granted at a price less than fair value in the case of ISOs and NSOs. Fair value was determined by the board of directors, in good faith, with input from valuation consultants. On June 22, 2016, the plan was terminated in connection with the Company's IPO. Accordingly, no shares are available for future issuance under the 2008 Plan. The 2008 Plan continues to govern outstanding equity awards granted thereunder. The Company's right of first refusal for outstanding equity awards granted under the 2008 Plan terminated upon completion of the IPO. Options granted include provisions for early exercisability.

2016 Stock Option and Incentive Plan

The Company's 2016 Stock Option and Incentive Plan (the "2016 Plan") became effective on June 21, 2016. The 2016 Plan provides for the grant of ISOs, NSOs, restricted stock, RSUs, stock appreciation rights, unrestricted stock awards, performance share awards, dividend equivalent rights and cash-based awards to employees, directors and consultants of the Company. A total of 11,500,000 shares of the Company's Class A common stock were initially reserved for issuance under the 2016 Plan. These available shares will automatically increase each January 1, beginning on January 1, 2017, by 5% of the number of shares of the Company's Class A and Class B common stock outstanding on the immediately preceding December 31, or such lesser number of shares as determined by the Company's compensation committee.

Under the 2016 Plan, the stock options are granted at a price per share not less than 100% of the fair market value per share of the underlying common stock on the date of grant. Under both plans, stock options generally expire 10 years from the date of grant and vest over periods determined by the board of directors. The vesting period for options and restricted stock units is generally a four-year term from the date of grant, at a rate of 25% after one year, then monthly or quarterly, respectively, on a straight-line basis thereafter.

2016 Employee Stock Purchase Plan

The Company's Employee Stock Purchase Plan ("2016 ESPP") became effective on June 21, 2016. A total of 2,400,000 shares of the Company's Class A common stock were initially reserved for issuance under the 2016 ESPP. These available shares will automatically increase each January 1, beginning on January 1, 2017, by the lesser of 1,800,000 shares of the common stock, 1% of the number of shares of the Company's Class A and Class B common stock outstanding on the immediately preceding

13. Stock-Based Compensation (Continued)

December 31 or such lesser number of shares as determined by the Company's compensation committee.

The 2016 ESPP allows eligible employees to purchase shares of the Company's Class A common stock at a discount of up to 15% through payroll deductions of their eligible compensation, subject to any plan limitations. Except for the initial offering period, the 2016 ESPP provides for separate six-month offering periods beginning in May and November of each fiscal year, starting in May 2017.

On each purchase date, eligible employees will purchase the Company's stock at a price per share equal to 85% of the lesser of (i) the fair market value of the Company's Class A common stock on the offering date or (ii) the fair market value of the Company's common stock on the purchase date.

For the year ended December 31, 2016, no shares of common stock were purchased under the 2016 ESPP and 597,038 shares are expected to be purchased at the end of the initial offering period. As of December 31, 2016, total unrecognized compensation cost related to 2016 ESPP was $1.3 million, which will be amortized over a weighted-average period of 0.4 years.

Stock options and restricted stock units activity under the 2008 Plan and 2016 Plan was as follows:

Stock Options

	Number of options outstanding	Weighted-average exercise price (per share)	Weighted-average remaining contractual term (in years)	Aggregate intrinsic value (in thousands)
Outstanding options as of December 31, 2015	16,883,837	$ 5.31	8.30	$ 80,758
Granted	1,894,850	10.73		
Exercised	(2,294,652)	3.97		
Forfeited and cancelled	(1,834,759)	5.95		
Outstanding options as of December 31, 2016	14,649,276	$ 6.14	7.52	$332,716
Options vested and exercisable as of December 31, 2016	7,075,211	$ 4.30	6.48	$173,678

Aggregate intrinsic value represents the difference between the Company's estimated fair value of its common stock and the exercise price of outstanding "in-the-money" options. The aggregate intrinsic value of stock options exercised was $54.4 million, $10.1 million and $1.5 million, during the years ended December 31, 2016, 2015 and 2014, respectively.

The total estimated grant date fair value of options vested was $15.3 million, $8.2 million and $3.9 million during the years ended December 31, 2016, 2015 and 2014, respectively. The weighted-average grant-date fair value of options granted was $5.52, $4.30 and $2.88 during the years ended December 31, 2016, 2015 and 2014, respectively.

As of December 31, 2016, total unrecognized compensation cost related to nonvested stock options was $29.2 million, which will be amortized on a ratable basis over a weighted-average period of 2.4 years.

13. Stock-Based Compensation (Continued)

Restricted Stock Units

	Number of options outstanding	Weighted-average grant date fair value (per share)	Aggregate intrinsic value (in thousands)
Nonvested RSUs as of December 31, 2015	71,000	$ 9.39	$ 716
Granted	2,162,890	32.10	
Vested	(87,523)	19.09	
Forfeited and cancelled	(112,150)	17.80	
Nonvested RSUs as of December 31, 2016	2,034,217	$32.66	$58,687

Prior to the completion of the Company's IPO, the Company granted RSUs ("Pre-IPO RSUs") under its 2008 Plan to its employees that vested upon the satisfaction of both a time-based service condition and a liquidity condition. The time-based service condition for the majority of these awards will be satisfied over a period of four years. The liquidity condition was satisfied upon occurrence of the Company's IPO in June 2016. RSUs granted on or after the completion of the Company's IPO ("Post-IPO RSUs") are granted under the 2016 Plan and are subject to a time-based vesting condition only. The compensation expense related to these grants is based on the grant date fair value of the RSUs and is recognized on a ratable basis over the applicable service period. The majority of Post-IPO RSUs are earned over a service period of two to four years.

As of December 31, 2016, total unrecognized compensation cost related to nonvested RSUs was $60.5 million, which will be amortized over a weighted-average period of 3.3 years.

Equity Awards Granted to Nonemployees

In September 2016, the Company granted 30,255 restricted stock units to a nonemployee. The award is vested upon the satisfaction of a service condition over two years starting in August 2015 and the stock-based compensation expense recorded for this award during the year ended December 31, 2016, was $0.6 million. In December 2015, the Company granted 30,000 stock options to another nonemployee. These options vest upon the satisfaction of a service condition over a four year period. The stock-based compensation expense recorded for this award in the year ended December 31, 2016, was $0.3 million.

As of December 31, 2016, total unrecognized compensation cost related to nonvested nonemployee awards was $0.8 million, which will be amortized over a weighted average period of 1.7 years.

There were no nonemployee grants in the year ended December 31, 2014.

Early Exercise of Nonvested Options

Under the 2008 Plan, employees have an option to exercise their stock options prior to vesting. The Company has the right to repurchase, at the original issuance price, any unvested (but issued) common shares upon termination of service of an employee, either voluntarily or involuntarily. The consideration received for an early exercise of a stock option is considered to be a deposit of the exercise price and the related amount is recorded as a liability. The liability is reclassified into

13. Stock-Based Compensation (Continued)

stockholders' equity as the stock options vest. As of December 31, 2016 and 2015, the Company recorded a liability of $0.3 million and $0.2 million for 49,580 and 52,407 unvested shares, respectively, that were early exercised by employees and were subject to repurchase at the respective period end. These amounts are reflected in current and non-current liabilities on the Company's consolidated balance sheets.

Valuation Assumptions

The fair value of employee stock options was estimated on the date of grant using the following assumptions in the Black-Scholes option pricing model:

	Year Ended December 31,		
	2016	2015	2014
Employee Stock Options			
Fair value of common stock	$10.09 - $15.00	$7.07 - $10.09	$3.99 - $6.69
Expected term (in years)	6.08	6.08	5.27 - 6.57
Expected volatility	51.4% - 53.0%	47.8% - 54.9%	54.4%
Risk-free interest rate	1.3% - 1.5%	1.4% - 2.0%	1.7% - 2.0%
Dividend rate	0%	0%	0%
Employee Stock Purchase Plan			
Expected term (in years)	0.90	—	—
Expected volatility	52%	—	—
Risk-free interest rate	0.6%	—	—
Dividend rate	0%	—	—

Stock-Based Compensation Expense

The Company recorded the total stock-based compensation expense as follows (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Cost of revenue	$ 291	$ 65	$ 39
Research and development	12,946	4,046	1,577
Sales and marketing	4,972	2,389	1,335
General and administrative	6,016	2,377	1,027
Total	$24,225	$8,877	$3,978

14. Net Loss Per Share Attributable to Common Stockholders

The following table sets forth the calculation of basic and diluted net loss per share attributable to common stockholders during the periods presented (in thousands, except per share data):

	Year Ended December 31,		
	2016	2015	2014
Net loss attributable to common stockholders	$ (41,324)	$ (38,896)	$ (26,758)
Weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted	53,116,675	17,746,526	16,900,124
Net loss per share attributable to common stockholders, basic and diluted	$ (0.78)	$ (2.19)	$ (1.58)

The following outstanding shares of common stock equivalents were excluded from the computation of the diluted net loss per share attributable to common stockholders for the periods presented because their effect would have been anti-dilutive:

	Year Ended December 31,		
	2016	2015	2014
Convertible preferred stock outstanding	—	54,508,441[1]	42,482,490
Stock options issued and outstanding	14,649,276	16,883,837	13,141,311
Nonvested restricted stock units issued and outstanding	2,034,217	71,000	—
Common stock reserved for Twilio.org	680,397	888,022	—
Shares committed under 2016 ESPP	597,038	—	—
Unvested shares subject to repurchase	49,580	52,407	127,316
Total	18,010,508	72,403,707	55,751,117

(1) Includes 687,885 shares as of December 31, 2015 of Series T convertible preferred stock related to the Authy acquisition held in escrow.

15. Income Taxes

The following table presents domestic and foreign components of loss before income taxes for the periods presented (in thousands):

	Year Ended December 31,		
	2016	2015	2014
United States	$(14,002)	$(23,962)	$(26,837)
International	(26,996)	(11,420)	92
Loss before provision for income taxes	$(40,998)	$(35,382)	$(26,745)

15. Income Taxes (Continued)

Provision for income taxes consists of the following (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Current:			
Federal	$ —	$ —	$—
State	83	45	—
Foreign	214	213	13
Total	297	258	13
Deferred:			
Federal	2	(109)	—
State	—	—	—
Foreign	27	(27)	—
Total	29	(136)	—
Provision for income taxes	326	$ 122	$13

As a result of the acquisition of Authy in February 2015, the Company recorded a tax benefit of $0.1 million in the year ended December 31, 2015. This tax benefit is a result of a partial release of the Company's existing valuation allowance immediately prior to the acquisition since the acquired deferred tax liabilities from Authy will provide a source of income for the Company to realize a portion of its deferred tax assets, for which a valuation allowance is no longer needed.

The following table presents a reconciliation of the statutory federal tax rate and the Company's effective tax rate for the years ended December 31, 2016, 2015 and 2014:

	Year Ended December 31,		
	2016	2015	2014
Tax benefit at federal statutory rate	34%	34%	34%
State tax, net of federal benefit	11	(3)	7
Stock-based compensation	23	(8)	(4)
Credits	2	4	2
Foreign rate differential	(23)	(11)	—
Reserve for uncertain tax positions	(12)	—	—
Change in valuation allowance	(34)	(14)	(39)
Other	(2)	(2)	—
Effective tax rate	(1)%	—%	—%

Deferred income taxes reflect 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

Form 10-K

15. Income Taxes (Continued)

purposes. The following table presents the significant components of the Company's deferred tax assets and liabilities (in thousands):

	As of December 31,		
	2016	2015	2014
Deferred tax assets:			
Net operating loss carryforwards	$ 31,090	$ 27,401	$ 24,402
Accrued and prepaid expenses	16,698	7,603	5,573
Stock-based compensation	5,368	1,433	423
Research and development credits	7,807	6,022	3,918
Charitable contributions	1,458	—	—
Gross deferred tax assets	62,421	42,459	34,316
Valuation allowance	(49,601)	(35,613)	(30,559)
Net deferred tax assets	12,820	6,846	3,757
Deferred tax liabilities:			
Capitalized software	(7,086)	(4,084)	(2,019)
Prepaid expenses	(452)	(2,035)	(1,607)
Acquired intangibles	(152)	(460)	—
Property and equipment	(4,931)	(240)	(131)
Other	(201)	—	—
Net deferred tax asset (liability)	(2)	$ 27	$ —

In the fourth quarter 2016, the Company early adopted ASU 2016-09 "*Compensation—Stock Compensation (Topic 718): Improvements to Employee Share -Based Payment Accounting*." The primary tax impact of the adoption was the recognition of excess tax benefits in the provision for income taxes rather than additional paid-in capital. The new guidance eliminates the requirement to delay the recognition of excess tax benefits until it reduces current taxes payable. As a result, the Company reclassified $62,000 in excess tax benefits, offset by valuation allowance, from additional paid-in-capital to income tax expense. Additionally, the recognition of previously unrecognized excess tax benefits was adopted on a modified retrospective basis. The unrecognized excess tax benefits of $2.0 million as of January 1, 2016 had no impact on the Company's accumulated deficit balance as the Company carried a full valuation allowance on the related deferred tax assets. The new guidance also requires companies to record, subsequent to the adoption, excess tax benefits and tax deficiencies in the period they arise. There was no impact on the Company's tax provision due to the full valuation allowance. In addition, cash flows related to excess tax benefits will no longer be classified as a financing activity apart from other income tax cash flows. The Company adopted this change in presentation of excess tax benefits as an operating activity on the statements of cash flows on a prospective basis.

As of December 31, 2016, the Company had approximately $104.0 million in federal net operating loss carryforwards and $6.4 million in federal tax credits. If not utilized, the federal net operating loss and tax credit carryforwards will expire at various dates beginning in 2029.

As of December 31, 2016, the Company had approximately $88.7 million in state net operating loss carryforwards and $5.4 million in state tax credits. If not utilized, the state net operating loss

15. Income Taxes (Continued)

carryforwards will expire at various dates beginning in 2027. The California state tax credits can be carried forward indefinitely.

A limitation may apply to the use of the net operating loss and credit carryforwards, under provisions of the Internal Revenue Code of 1986, as amended, and similar state tax provisions that are applicable if the Company experiences an "ownership change." An ownership change may occur, for example, as a result of issuance of new equity. Should these limitations apply, the carryforwards would be subject to an annual limitation, resulting in a potential reduction in the gross deferred tax assets before considering the valuation allowance.

The Company's accounting for deferred taxes involves the evaluation of a number of factors concerning the realizability of its net deferred tax assets. The Company primarily considered such factors as its history of operating losses, the nature of the Company's deferred tax assets, and the timing, likelihood and amount, if any, of future taxable income during the periods in which those temporary differences and carryforwards become deductible. At present, the Company does not believe that it is more likely than not that the net deferred tax assets will be realized, accordingly, a full valuation allowance has been established. The valuation allowance increased by approximately $14.0 million and $5.1 million during the years ended December 31, 2016 and 2015, respectively.

The Company attributes net revenue, costs and expenses to domestic and foreign components based on the terms of its agreements with its subsidiaries. The Company does not provide for federal income taxes on the undistributed earnings of its foreign subsidiaries, as such earnings are to be reinvested offshore indefinitely. As of December 31, 2016, the amount of cash associated with indefinitely reinvested foreign earnings was approximately $1.1 million.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	Year Ended December 31,		
	2016	**2015**	**2014**
Unrecognized tax benefit, beginning of year	$ 1,679	$1,024	$ 592
Gross increases for tax positions of prior years	1,996	—	—
Gross increases for tax positions of current years	8,600	655	432
Unrecognized tax benefit, end of year	$12,275	$1,679	$1,024

As of December 31, 2016, the Company had approximately $12.3 million of unrecognized tax benefits. If the $12.3 million is recognized, $0.1 million would affect the effective tax rate. The remaining amount would be offset by the reversal of related deferred tax assets which are subject to a full valuation allowance.

The Company had not incurred any material tax interest or penalties with respect to income taxes in the years ended December 31, 2016, 2015 and 2014.

The Company does not anticipate any significant changes within 12 months of December 31, 2016, in its uncertain tax positions that would be material to the consolidated financial statements taken as a whole because nearly all of the unrecognized tax benefit has been offset by a deferred tax asset, which has been reduced by a valuation allowance.

15. Income Taxes (Continued)

The Company files U.S. federal income tax returns as well as income tax returns in many U.S. states and foreign jurisdictions. As of December 31, 2016, the tax years 2008 through the current period remain open to examination by the major jurisdictions in which the Company is subject to tax. Fiscal years outside the normal statute of limitation remain open to audit by tax authorities due to tax attributes generated in those early years, which have been carried forward and may be audited in subsequent years when utilized. The Company is not currently subject to U.S. federal, state and local, or non-U.S. income tax examinations by any tax authorities.

16. Employee Benefit Plan

The Company sponsors a 401(k) defined contribution plan covering all employees. There were no employer contributions to the plan in the years ended December 31, 2015 and 2014. The employer contribution to the plan in the year ended December 31, 2016 was $1.1 million.

17. Transactions With Investors

In 2015, two of the Company's vendors participated in the Company's Series E convertible preferred stock financing and owned approximately 2.0% and 1.0%, respectively, of the Company's capital stock, on as-if converted basis, as of December 31, 2016 and 2.5% and 1.2%, respectively, of the Company's outstanding capital stock as of December 31, 2015. During the years ended December 31, 2016, 2015 and 2014, the amounts of software services the Company purchased from the first vendor were $14.5 million, $11.1 million and $8.0 million, respectively. The amounts due to this vendor that were accrued as of December 31, 2016 and 2015 were insignificant. In October 2016, the Company entered into a three-year agreement with this vendor to purchase services for an aggregate purchase commitment amount of $57.7 million over the course of the three-year contractual period. The amount of services the Company purchased from the second vendor was $0.5 million for each of the years ended December 31, 2016, 2015 and 2014. The amounts due to this vendor that were accrued as of December 31, 2016 and 2015 were insignificant.

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Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our 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")), as of the end of the period covered by this Annual Report on Form 10-K. Based on such evaluation, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were effective.

Management's Annual Report on Internal Control Over Financial Reporting

This Annual Report on Form 10-K does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of our registered public accounting firm as permitted in this transition period under the rules of the SEC for newly public companies.

Changes in Internal Control

There were no changes in our internal control over financial reporting in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Annual Report on Form 10-K that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Item 9B. ***Other Information***

Not applicable.

Part III

Item 10. ***Directors, Executive Officers and Corporate Governance***

The information required by this item is incorporated by reference to our Proxy Statement relating to our 2017 Annual Meeting of Shareholders. The Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the fiscal year ended December 31, 2016.

Codes of Business Conduct and Ethics

Our board of directors has adopted a Code of Business Conduct and Ethics that applies to all officers, directors and employees, which is available on our website at (investors.twilio.com) under "Governance Documents". We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding amendments to, or waiver from, a provision of our Code of Business Conduct and Ethics and by posting such information on the website address and location specified above.

Item 11. ***Executive Compensation***

The information required by this item is incorporated by reference to our Proxy Statement relating to our 2017 Annual Meeting of Shareholders. The Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the fiscal year ended December 31, 2016.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information required by this item is incorporated by reference to our Proxy Statement relating to our 2017 Annual Meeting of Shareholders. The Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the fiscal year ended December 31, 2016.

Item 13. ***Certain Relationships and Related Transactions and Director Independence***

The information required by this item is incorporated by reference to our Proxy Statement relating to our 2017 Annual Meeting of Shareholders. The Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the fiscal year ended December 31, 2016.

Item 14. ***Principal Accountant Fees and Services***

The information required by this item is incorporated by reference to our Proxy Statement relating to our 2017 Annual Meeting of Shareholders. The Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the fiscal year ended December 31, 2016.

Part IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) The following documents are filed as part of this report:

1. Financial Statements

   See Index to Financial Statements at Item 8 herein.

2. Financial Statement Schedules

   Schedules not listed above have been omitted because they are not required, not applicable, or the required information is otherwise included.

3. Exhibits

   See the Exhibit Index immediately following the signature page of this Annual Report on Form 10-K.

Item 16. ***Form 10-K Summary***

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Twilio Inc.

Date: February 21, 2017	/s/ JEFFREY LAWSON Jeffrey Lawson *Director and Chief Executive Officer* *(Principal Executive Officer)*
Date: February 21, 2017	/s/ LEE KIRKPATRICK Lee Kirkpatrick *Chief Financial Officer* *(Principal Accounting and Financial Officer)*
Date: February 21, 2017	/s/ RICHARD DALZELL Richard Dalzell *Director*
Date: February 21, 2017	/s/ BYRON DEETER Byron Deeter *Director*
Date: February 21, 2017	/s/ ELENA DONIO Elena Donio *Director*
Date: February 21, 2017	/s/ JAMES MCGEEVER James McGeever *Director*
Date: February 21, 2017	/s/ SCOTT RANEY Scott Raney *Director*
Date: February 21, 2017	/s/ ERIKA ROTTENBERG Erika Rottenberg *Director*

EXHIBIT INDEX

Exhibit Number	Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
3.1	Amended and Restated Certificate of Incorporation of Twilio Inc.	S-1A	333-211634	3.1	June 13, 2016
3.2	Amended and Restated Bylaws of Twilio Inc.	S-1A	333-211634	3.3	June 13, 2016
4.1	Form of Class A common stock certificate of Twilio Inc.	S-1	333-211634	4.1	May 26, 2016
4.2	Amended and Restated Investors' Rights Agreement, dated April 24, 2015, between Twilio Inc. and certain of its stockholders	S-1	333-211634	4.2	May 26, 2016
10.1	Form of Indemnification Agreement	S-1A	333-211634	10.1	June 13, 2016
10.2	Twilio Inc. 2008 Stock Option Plan, as amended and restated, and forms of Stock Options Agreement and form of Stock Option Grant Notice	S-1	333-211634	10.2	May 26, 2016
10.3	Twilio Inc 2016 Stock Option and Incentive Plan, and forms of Agreements thereunder	S-1	333-211634	10.3	May 26, 2016
10.4	Amended and Restated Loan and Security Agreement, dated March 19, 2015, between Twilio Inc. and Silicon Valley Bank	S-1	333-211634	10.4	May 26, 2016
10.5	Office Lease, dated July 13, 2012, as amended April 16, 2014, between Twilio and HV-645 Harrison, Inc.	S-1	333-211634	10.5	May 26, 2016
10.6	Office Lease, dated January 8, 2016, as amended January 8, 2016, between Twilio Inc. and Bay Area Headquarters Authority	S-1	333-211634	10.6	May 26, 2016
10.7	Executive Severance Plan	S-1	333-211634	10.7	May 26, 2016
10.8	Twilio Inc. 2016 Employee Stock Purchase Plan	S-1	333-211634	10.8	May 26, 2016
10.9	Lease Termination Agreement, dated October 21, 2016, between Twilio Inc and HV-645 Harrison, Inc.				Filed herewith
21.1	List of subsidiaries of the Registrant				Filed herewith
23.1	Consent of KPMG, LLP, independent registered public accounting firm				Filed herewith

Exhibit Number	Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
31.1	Certification of the 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				Filed herewith
31.2	Certification of the 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				Filed herewith
32.1*	Certification of the 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				Furnished herewith
101.INS	XBRL Instance Document.				Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document.				Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.				Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.				Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.				Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.				Filed herewith

* The certifications furnished in Exhibit 32.1 hereto are deemed to accompany this Annual Report on Form 10-K and will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates it by reference

Exhibit 21.1

List of Subsidiaries of Twilio Inc.

Twilio Europe Limited (England and Wales)

Twilio Estonia OÜ (Estonia)

Aquarius Survivor LLC (Delaware, United States)

Twilio Colombia S.A.S. (Colombia)

Twilio IP Holding Limited (Ireland)

Twilio Ireland Limited (Ireland)

Twilio Germany GmbH (Germany)

Twilio Hong Kong Limited (Hong Kong)

Twilio Singapore Pte. Ltd. (Singapore)

Twilio Spain, S.L.(Spain)

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Twilio Inc.:

We consent to the incorporation by reference in the registration statement (No. 333-212191) on Form S-8 of Twilio Inc. of our report dated February 21, 2017, with respect to the consolidated balance sheets of Twilio Inc. as of December 31, 2016 and 2015, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016, which report appears in the December 31, 2016 annual report on Form 10-K of Twilio Inc.

/s/ KPMG LLP
San Francisco, California
February 21, 2017

Exhibit 31.1

CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jeffrey Lawson, certify that:

1. I have reviewed this Annual Report on Form 10-K of Twilio Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 21, 2017

/s/ JEFFREY LAWSON

Jeffrey Lawson
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF
THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Lee Kirkpatrick certify that:

1. I have reviewed this Annual Report on Form 10-K of Twilio Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 21, 2017

/s/ LEE KIRKPATRICK

Lee Kirkpatrick
Chief Financial Officer
(Principal Accounting and Financial Officer)

Exhibit 32.1

CERTIFICATION 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

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Jeffrey Lawson, Chief Executive Officer of Twilio Inc. (the "Company"), and Lee Kirkpatrick, Chief Financial Officer of the Company, each hereby certifies that, to the best of his knowledge:

1. The Company's Annual Report on Form 10-K for the year ended December 31, 2016, to which this Certification is attached as Exhibit 32.1 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and
2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 21, 2017

/s/ JEFFREY LAWSON

Jeffrey Lawson
Chief Executive Officer
(Principal Executive Officer)

/s/ LEE KIRKPATRICK

Lee Kirkpatrick
Chief Financial Officer
(Principal Accounting and Financial Officer)

LEADERSHIP

MANAGEMENT

Jeff Lawson
Co-founder, CEO & Chairman

Lee Kirkpatrick
CFO

George Hu
COO

Karyn Smith
General Counsel

Ott Kaukver
VP & GM, Voice & Video

Patrick Malatack
VP & GM, Messaging

Francois Dufour
VP, Global Marketing

Erin Reilly
VP, Social Impact & GM, Twilio.org

BOARD

Jeff Lawson
Co-founder, CEO & Chairman

Rick Dalzell
Former SVP & CIO, Amazon

Byron Deeter
Partner, Bessemer Venture Partners

Elena Donio
CEO, Axiom

Jim McGeever
EVP, Oracle Corporation

Scott Raney
Partner, Redpoint Venture Partners

Erika Rottenberg
Former General Counsel, LinkedIn

AUDITORS KPMG LLC

TRANSFER AGENT & REGISTRAR Computershare Trust Company, N.A.

twilio.com