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Facebook Inc  
Form 10-Q  
April 25, 2014  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended March 31, 2014

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-35551

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FACEBOOK, INC.

(Exact name of registrant as specified in its charter)

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Delaware

(State or other jurisdiction of incorporation or organization)

1601 Willow Road, Menlo Park, California 94025  
(Address of principal executive offices and Zip Code)  
(650) 543-4800

(Registrant's telephone number, including area code)

20-1665019

(I.R.S. Employer Identification Number)

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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 (Exchange Act) 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date.

Class

Number of Shares Outstanding

Class A Common Stock \$0.000006 par value

1,993,729,703 shares outstanding as of April 22, 2014

Class B Common Stock \$0.000006 par value

572,617,477 shares outstanding as of April 22, 2014



FACEBOOK, INC.  
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#### NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained in this Quarterly Report on Form 10-Q other than statements of historical fact, including statements regarding our future results of operations and financial position, our business strategy and plans, and our objectives for future operations, are forward-looking statements. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in Part II, Item 1A, "Risk Factors" in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the future events and trends discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

Unless expressly indicated or the context requires otherwise, the terms "Facebook," "company," "we," "us," and "our" in this document refer to Facebook, Inc., a Delaware corporation, and, where appropriate, its wholly owned subsidiaries. The term "Facebook" may also refer to our products, regardless of the manner in which they are accessed. For references to accessing Facebook on the "web" or via a "website," such terms refer to accessing Facebook on desktop or personal computers. For references to accessing Facebook on "mobile," such term refers to accessing Facebook via a mobile application or via a mobile-optimized version of our website such as m.facebook.com, whether on a mobile phone or tablet.

#### LIMITATIONS OF KEY METRICS AND OTHER DATA

The numbers for our key metrics, which include our daily active users (DAUs), mobile DAUs, monthly active users (MAUs), mobile MAUs, and average revenue per user (ARPU), as well as certain other metrics such as mobile-only DAUs and mobile-only MAUs, are calculated using internal company data based on the activity of user accounts. While these numbers are based on what we believe to be reasonable estimates of our user base for the applicable period of measurement, there are inherent challenges in measuring usage of our products across large online and mobile populations around the world.

For example, there may be individuals who maintain one or more Facebook accounts in violation of our terms of service. We estimate, for example, that "duplicate" accounts (an account that a user maintains in addition to his or her principal account) may have represented between approximately 4.3% and 7.9% of our worldwide MAUs in 2013. We also seek to identify "false" accounts, which we divide into two categories: (1) user-misclassified accounts, where users have created personal profiles for a business, organization, or non-human entity such as a pet (such entities are permitted on Facebook using a Page rather than a personal profile under our terms of service); and (2) undesirable accounts, which represent user profiles that we determine are intended to be used for purposes that violate our terms of service, such as spamming. In 2013, for example, we estimate user-misclassified accounts may have represented between approximately 0.8% and 2.1% of our worldwide MAUs and undesirable accounts may have represented between approximately 0.4% and 1.2% of our worldwide MAUs. We believe the percentage of accounts that are duplicate or false is meaningfully lower in developed markets such as the United States or United Kingdom and higher in developing markets such as India and Turkey. However, these estimates are based on an internal review of a limited sample of accounts and we apply significant judgment in making this determination, such as identifying names that appear to be fake or other behavior that appears inauthentic to the reviewers. As such, our estimation of duplicate or false accounts may not accurately represent the actual number of such accounts. We are continually seeking to improve our ability to identify duplicate or false accounts and estimate the total number of such accounts, and such estimates may change due to improvements or changes in our methodology. Due to inherent variability in such estimates at particular dates of measurement, we disclose these estimates as a range over a recent period.

Our data limitations may affect our understanding of certain details of our business. For example, while user-provided data indicates a decline in usage among younger users, this age data is unreliable because a disproportionate number of our younger users register with an inaccurate age. In the third quarter of 2013, we worked with third parties to develop models to more accurately analyze user data by age in the United States. These models suggested that usage by U.S. teens overall was stable, but that DAUs among younger U.S. teens had declined. The data and models we are using are not precise and our understanding of usage by age group may not be complete.

Some of our historical metrics through the second quarter of 2012 were also affected by applications on certain mobile devices that automatically contact our servers for regular updates with no user action involved, and this activity can cause our system to count the user associated with such a device as an active user on the day such contact occurs. For example, we estimate that less than 5% of our estimated worldwide DAUs as of December 31, 2011 resulted from this type of automatic mobile activity, and that this type of activity had a substantially smaller effect on our estimate of worldwide MAUs and mobile MAUs. The impact of this automatic activity on our metrics varies by geography because mobile usage varies in different regions of the world. In addition, our data regarding the geographic location of our users is estimated based on a number of factors, such as the user's IP address and self-disclosed location. These factors may not always accurately reflect the user's actual location. For example, a mobile-only user may appear to be accessing Facebook from the location of the proxy server that the user connects to rather than from the user's actual location. The methodologies used to measure user metrics may also be susceptible to algorithm or other technical errors. For example, in early June 2012, we discovered an error in the algorithm we used to estimate the geographic location of our users that affected our attribution of certain user locations for the period ended March 31, 2012. While this issue did not affect our overall worldwide DAU and MAU numbers, it did affect our attribution of users across different geographic regions. We estimate that the number of MAUs as of March 31, 2012 for the United States & Canada region was overstated as a result of the error by approximately 3% and this overstatement was offset by understatements in other regions. The number of such users for the period ended March 31, 2012 disclosed in "Management's Discussion and Analysis of Financial Condition and Results of Operations — Trends in Our User

Metrics" reflects the reclassification to more correctly attribute users by geographic region. Our estimates for revenue by user location and revenue by user device are also affected by these factors. We regularly review and may adjust our processes for calculating these metrics to improve their accuracy. In addition, our DAU and MAU estimates will differ from estimates published by third parties due to differences in methodology. For example, some third parties are not able to accurately measure mobile users or do not count mobile users for certain user groups or at all in their analyses. The numbers of DAUs, mobile DAUs, MAUs, mobile MAUs, mobile-only DAUs and mobile-only MAUs discussed in this Quarterly Report on Form 10-Q, as well as ARPU, do not include users of Instagram unless they would otherwise qualify as such users, respectively, based on their other activities on Facebook. In addition, other user engagement metrics included herein do not include Instagram unless otherwise specifically stated.

## PART I—FINANCIAL INFORMATION

## Item 1. Financial Statements

## FACEBOOK, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except for number of shares and par value)

(Unaudited)

	March 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$2,998	\$3,323
Marketable securities	9,631	8,126
Accounts receivable, net of allowances for doubtful accounts of \$31 and \$38 as of March 31, 2014 and December 31, 2013, respectively	1,006	1,109
Prepaid expenses and other current assets	425	512
Total current assets	14,060	13,070
Property and equipment, net	3,074	2,882
Goodwill and intangible assets, net	1,682	1,722
Other assets	212	221
Total assets	\$19,028	\$17,895
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$85	\$87
Developer partners payable	188	181
Accrued expenses and other current liabilities	525	555
Deferred revenue and deposits	38	38
Current portion of capital lease obligations	201	239
Total current liabilities	1,037	1,100
Capital lease obligations, less current portion	191	237
Other liabilities	1,063	1,088
Total liabilities	2,291	2,425
Stockholders' equity:		
Common stock, \$0.000006 par value; 5,000 million Class A shares authorized, 1,991 million and 1,970 million shares issued and outstanding, including 5 million and 6 million outstanding shares subject to repurchase, as of March 31, 2014 and December 31, 2013, respectively; 4,141 million Class B shares authorized, 573 million and 577 million shares issued and outstanding, including 6 million outstanding shares subject to repurchase, as of March 31, 2014 and December 31, 2013, respectively	—	—
Additional paid-in capital	12,921	12,297
Accumulated other comprehensive income	15	14
Retained earnings	3,801	3,159
Total stockholders' equity	16,737	15,470
Total liabilities and stockholders' equity	\$19,028	\$17,895

See Accompanying Notes to Condensed Consolidated Financial Statements.

FACEBOOK, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 (In millions, except per share amounts)  
 (Unaudited)

	Three Months Ended March 31,	
	2014	2013
Revenue	\$2,502	\$1,458
Costs and expenses:		
Cost of revenue	462	413
Research and development	455	293
Marketing and sales	323	203
General and administrative	187	176
Total costs and expenses	1,427	1,085
Income from operations	1,075	373
Interest and other income/(expense), net	—	(20)
Income before provision for income taxes	1,075	353
Provision for income taxes	433	134
Net income	\$642	\$219
Less: Net income attributable to participating securities	3	2
Net income attributable to Class A and Class B common stockholders	\$639	\$217
Earnings per share attributable to Class A and Class B common stockholders:		
Basic	\$0.25	\$0.09
Diluted	\$0.25	\$0.09
Weighted average shares used to compute earnings per share attributable to Class A and Class B common stockholders:		
Basic	2,545	2,386
Diluted	2,609	2,499
Share-based compensation expense included in costs and expenses:		
Cost of revenue	\$12	\$8
Research and development	181	117
Marketing and sales	43	24
General and administrative	38	21
Total share-based compensation expense	\$274	\$170
See Accompanying Notes to Condensed Consolidated Financial Statements.		



FACEBOOK, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

(Unaudited)

	Three Months Ended March 31,	
	2014	2013
Net income	\$642	\$219
Other comprehensive income (loss):		
Change in foreign currency translation adjustment	(1	) (18
Change in unrealized gain/loss on available-for-sale investments, net of tax	2	—
Change in unrealized gain/loss on derivative, net of tax	—	1
Comprehensive income	\$643	\$202

See Accompanying Notes to Condensed Consolidated Financial Statements.

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FACEBOOK, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (In millions)  
 (Unaudited)

	Three Months Ended March		
	31, 2014	2013	
Cash flows from operating activities			
Net income	\$642	\$219	
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	264	233	
Lease abandonment	(13	) 8	
Share-based compensation	274	170	
Deferred income taxes	(1	) (7	)
Tax benefit from share-based award activity	345	59	
Excess tax benefit from share-based award activity	(348	) (62	)
Other	9	9	
Changes in assets and liabilities:			
Accounts receivable	105	54	
Prepaid expenses and other current assets	(4	) (1	)
Other assets	16	(36	)
Accounts payable	(10	) 1	
Developer partners payable	7	21	
Accrued expenses and other current liabilities	(27	) (33	)
Other liabilities	26	84	
Net cash provided by operating activities	1,285	719	
Cash flows from investing activities			
Purchases of property and equipment	(363	) (327	)
Purchases of marketable securities	(2,974	) (1,508	)
Sales of marketable securities	847	699	
Maturities of marketable securities	619	903	
Acquisitions of businesses, net of cash acquired, and purchases of intangible assets	—	(99	)
Other investing activities, net	(1	) 6	
Net cash used in investing activities	(1,872	) (326	)
Cash flows from financing activities			
Taxes paid related to net share settlement of equity awards	(3	) (405	)
Proceeds from exercise of stock options	1	8	
Principal payments on capital lease obligations	(84	) (109	)
Excess tax benefit from share-based award activity	348	62	
Net cash provided by (used in) financing activities	262	(444	)
Effect of exchange rate changes on cash and cash equivalents	—	(8	)
Net decrease in cash and cash equivalents	(325	) (59	)
Cash and cash equivalents at beginning of period	3,323	2,384	
Cash and cash equivalents at end of period	\$2,998	\$2,325	
See Accompanying Notes to Condensed Consolidated Financial Statements.			

FACEBOOK, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (In millions)  
 (Unaudited)

	Three Months Ended March	
	31, 2014	2013
Supplemental cash flow data		
Cash paid during the period for:		
Interest	\$4	\$12
Income taxes	\$37	\$9
Non-cash investing and financing activities:		
Net change in accounts payable and accrued expenses and other current liabilities related to property and equipment additions	\$(3	) \$47
Property and equipment acquired under capital leases	\$—	\$11
Fair value of shares issued related to acquisitions of businesses and other assets	\$—	\$33
See Accompanying Notes to Condensed Consolidated Financial Statements.		

FACEBOOK, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (GAAP) and applicable rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. As such, the information included in this quarterly report on Form 10-Q should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

The condensed consolidated balance sheet as of December 31, 2013 included herein was derived from the audited financial statements as of that date, but does not include all disclosures including notes required by GAAP.

The condensed consolidated financial statements include the accounts of Facebook, Inc. and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated.

The accompanying condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for the full year ending December 31, 2014.

There have been no changes to our significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 that have had a material impact on our condensed consolidated financial statements and related notes.

Use of Estimates

Conformity with GAAP requires the use of estimates and judgments that affect the reported amounts in the condensed consolidated financial statements and accompanying notes. These estimates form the basis for judgments we make about the carrying values of our assets and liabilities, which are not readily apparent from other sources. We base our estimates and judgments on historical information and on various other assumptions that we believe are reasonable under the circumstances. GAAP requires us to make estimates and judgments in several areas, including, but not limited to, those related to revenue recognition, collectability of accounts receivable, contingent liabilities, fair value of financial instruments, fair value of acquired intangible assets and goodwill, useful lives of intangible assets and property and equipment, and income taxes. These estimates are based on management's knowledge about current events and expectations about actions we may undertake in the future. Actual results could differ materially from those estimates.

Note 2. Earnings per Share

We compute earnings per share (EPS) of Class A and Class B common stock using the two-class method required for participating securities. We consider restricted stock awards to be participating securities because holders of such shares have non-forfeitable dividend rights in the event of our declaration of a dividend for common shares.

Undistributed earnings allocated to participating securities are subtracted from net income in determining net income attributable to common stockholders. Basic EPS is computed by dividing net income attributable to common stockholders by the weighted-average number of shares of our Class A and Class B common stock outstanding, adjusted for outstanding shares that are subject to repurchase.

For the calculation of diluted EPS, net income attributable to common stockholders for basic EPS is adjusted by the effect of dilutive securities, including awards under our equity compensation plans. In addition, the computation of the diluted EPS of Class A common stock assumes the conversion of our Class B common stock to Class A common stock, while the diluted EPS of Class B common stock does not assume the conversion of those shares to Class A common stock. Diluted EPS attributable to common stockholders is computed by dividing the resulting net income attributable to common stockholders by the weighted-average number of fully diluted common shares outstanding.

We have excluded 3 million and 18 million restricted stock units (RSUs) from the EPS calculation for the three months ended March 31, 2014 and 2013 because the impact would be anti-dilutive.



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Basic and diluted EPS are the same for each class of common stock because they are entitled to the same liquidation and dividend rights.

The numerators and denominators of the basic and diluted EPS computations for our common stock were calculated as follows (in millions, except per share amounts):

	Three Months Ended March 31,			
	2014		2013	
	Class A	Class B	Class A	Class B
Basic EPS:				
Numerator				
Net income	\$498	\$144	\$156	\$63
Less: Net income attributable to participating securities	2	1	1	1
Net income attributable to common stockholders	\$496	\$143	\$155	\$62
Denominator				
Weighted average shares outstanding	1,982	574	1,709	691
Less: Shares subject to repurchase	5	6	4	10
Number of shares used for basic EPS computation	1,977			