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Facebook Inc  
Form 10-Q  
October 31, 2018  
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 September 30, 2018

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) 20-1665019 (I.R.S. Employer Identification Number)

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)

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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 every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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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	2,402,466,211 shares outstanding as of October 26, 2018
Class B Common Stock \$0.000006 par value	471,321,401 shares outstanding as of October 26, 2018

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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 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), monthly active users (MAUs), and average revenue per user (ARPU), 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. In addition, we are continually seeking to improve our estimates of our user base, and such estimates may change due to improvements or changes in our methodology.

We regularly evaluate these metrics to estimate the number of "duplicate" and "false" accounts among our MAUs. A duplicate account is one that a user maintains in addition to his or her principal account. We divide "false" accounts 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. The estimates of duplicate and false accounts are based on an internal review of a limited sample of accounts, and we apply significant judgment in making this determination. For example, to identify duplicate accounts we use data signals such as similar IP addresses or user names, and to identify false accounts we look for names that appear to be fake or other behavior that appears inauthentic to the reviewers. Our estimates may change as our methodologies evolve, including through the application of new data signals or technologies, which may allow us to identify previously undetected duplicate or false accounts and may improve our ability to evaluate a broader population of our users. Duplicate and false accounts are very difficult to measure at our scale, and it is possible that the actual number of duplicate and false accounts may vary significantly from our estimates.

In the fourth quarter of 2017, we estimate that duplicate accounts may have represented approximately 10% of our worldwide MAUs. We believe the percentage of duplicate accounts is meaningfully higher in developing markets such as India, Indonesia, and the Philippines, as compared to more developed markets. In the fourth quarter of 2017, we estimate that false accounts may have represented approximately 3-4% of our worldwide MAUs. Our estimation of false accounts can vary as a result of episodic spikes in the creation of such accounts, which we have seen originate more frequently in specific countries such as Indonesia, Turkey, and Vietnam. From time to time, we may make product changes or take other actions to reduce the number of duplicate or false accounts among our users, which may also reduce our DAU and MAU estimates in a particular 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. Accordingly, our understanding of usage by age group may not be complete.

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 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. Our estimates for revenue by user location and revenue by user device are also affected by these factors.

We regularly review our processes for calculating these metrics, and from time to time we may discover inaccuracies in our metrics or make adjustments to improve their accuracy, including adjustments that may result in the recalculation of our historical metrics. We believe that any such inaccuracies or adjustments are immaterial unless otherwise stated. We intend to disclose our estimates of the number of duplicate and false accounts among our MAUs on an annual basis. In addition, our DAU and MAU estimates will differ from estimates published by third parties due to differences in methodology.

The numbers of DAUs and MAUs discussed in this Quarterly Report on Form 10-Q, as well as ARPU, do not include Instagram, WhatsApp, or Oculus users 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, WhatsApp, or Oculus 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)

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,637	\$ 8,079
Marketable securities	31,569	33,632
Accounts receivable, net of allowances of \$207 and \$189 as of September 30, 2018 and December 31, 2017, respectively	6,058	5,832
Prepaid expenses and other current assets	1,883	1,020
Total current assets	49,147	48,563
Property and equipment, net	21,112	13,721
Intangible assets, net	1,451	1,884
Goodwill	18,304	18,221
Other assets	2,438	2,135
Total assets	\$ 92,452	\$ 84,524
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 590	\$ 380
Partners payable	502	390
Accrued expenses and other current liabilities	4,255	2,892
Deferred revenue and deposits	115	98
Total current liabilities	5,462	3,760
Other liabilities	6,648	6,417
Total liabilities	12,110	10,177
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.000006 par value; 5,000 million Class A shares authorized, 2,402 million and 2,397 million shares issued and outstanding, as of September 30, 2018 and December 31, 2017, respectively; 4,141 million Class B shares authorized, 471 million and 509 million shares issued and outstanding, as of September 30, 2018 and December 31, 2017, respectively.	—	—
Additional paid-in capital	42,352	40,584
Accumulated other comprehensive loss	(777	) (227
Retained earnings	38,767	33,990
Total stockholders' equity	80,342	74,347
Total liabilities and stockholders' equity	\$ 92,452	\$ 84,524
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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue	\$13,727	\$10,328	\$38,924	\$27,681
Costs and expenses:				
Cost of revenue	2,418	1,448	6,559	3,843
Research and development	2,657	2,052	7,418	5,805
Marketing and sales	1,928	1,170	5,379	3,351
General and administrative	943	536	2,475	1,831
Total costs and expenses	7,946	5,206	21,831	14,830
Income from operations	5,781	5,122	17,093	12,851
Interest and other income, net	131	114	297	281
Income before provision for income taxes	5,912	5,236	17,390	13,132
Provision for income taxes	775	529	2,160	1,467
Net income	\$5,137	\$4,707	\$15,230	\$11,665
Less: Net income attributable to participating securities	—	3	1	13
Net income attributable to Class A and Class B common stockholders	\$5,137	\$4,704	\$15,229	\$11,652
Earnings per share attributable to Class A and Class B common stockholders:				
Basic	\$1.78	\$1.62	\$5.26	\$4.02
Diluted	\$1.76	\$1.59	\$5.20	\$3.95
Weighted average shares used to compute earnings per share attributable to Class A and Class B common stockholders:				
Basic	2,885	2,904	2,895	2,898
Diluted	2,913	2,956	2,931	2,954
Share-based compensation expense included in costs and expenses:				
Cost of revenue	\$72	\$47	\$202	\$128
Research and development	748	776	2,347	2,233
Marketing and sales	133	114	380	330
General and administrative	87	73	251	218
Total share-based compensation expense	\$1,040	\$1,010	\$3,180	\$2,909

See Accompanying Notes to Condensed Consolidated Financial Statements.



## FACEBOOK, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	\$5,137	\$4,707	\$15,230	\$11,665
Other comprehensive income (loss):				
Change in foreign currency translation adjustment, net of tax	(44	) 174	(321	) 480
Change in unrealized gain/loss on available-for-sale investments and other, net of tax	(46	) (4	) (229	) 23
Comprehensive income	\$5,047	\$4,877	\$14,680	\$12,168

See Accompanying Notes to Condensed Consolidated Financial Statements.

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## FACEBOOK, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In millions)

(Unaudited)

	Three Months Ended September 30, 2018					Three Months Ended September 30, 2017				
	Class A and Class B Common Shares	Additional Paid-In Stock Capital Par Value	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity	Class A and Class B Common Shares	Additional Paid-In Stock Capital Par Value	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
Balances at beginning of period	2,891	\$ -41,832	\$(687 )	\$38,237	\$79,382	2,903	\$ -39,291	\$(370 )	\$27,560	\$66,481
Impact of the adoption of new accounting pronouncement	—	—	(31 )	31	—	—	—	—	—	—
Issuance of common stock	12	—3	—	—	3	13	—323	—	—	323
Shares withheld related to net share settlement	(5 )	—(523 )	—	(382 )	(905 )	(6 )	—(425 )	—	(428 )	(853 )
Share-based compensation, related to employee share-based awards	—	—1,040	—	—	1,040	—	—1,010	—	—	1,010
Share repurchases	(24 )	—	—	(4,256 )	(4,256 )	(4 )	—	—	(630 )	(630 )
Other comprehensive (loss) income	—	—	(59 )	—	(59 )	—	—	170	—	170
Net income	—	—	—	5,137	5,137	—	—	—	4,707	4,707
Balances at end of period	2,874	\$ -42,352	\$(777 )	\$38,767	\$80,342	2,906	\$ -40,199	\$(200 )	\$31,209	\$71,208
	Nine Months Ended September 30, 2018					Nine Months Ended September 30, 2017				
	Class A and Class B Common Shares	Additional Paid-In Stock Capital Par Value	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity	Class A and Class B Common Shares	Additional Paid-In Stock Capital Par Value	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
Balances at beginning of period	2,906	\$ -40,584	\$(227 )	\$33,990	\$74,347	2,892	\$ -38,227	\$(703 )	\$21,670	\$59,194
Impact of the adoption of new	—	—	(31 )	172	141	—	—	—	—	—

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accounting pronouncements										
Issuance of common stock	37	—11	—	—	11	38	—335	—	—	335
Shares withheld related to net share settlement	(15 )	—(1,423 )	—	(1,240 )	(2,663 )	(17 )	—(1,272 )	—	(1,088 )	(2,360 )
Share-based compensation, related to employee share-based awards	—	—3,180	—	—	3,180	—	—2,909	—	—	2,909
Share repurchases	(54 )	—	—	(9,385 )	(9,385 )	(7 )	—	—	(1,038 )	(1,038 )
Other comprehensive (loss) income	—	—	(519 )	—	(519 )	—	—	503	—	503
Net income	—	—	—	15,230	15,230	—	—	—	11,665	11,665
Balances at end of period	2,874	\$—\$42,352	\$(777 )	\$38,767	\$80,342	2,906	\$—\$40,199	\$(200 )	\$31,209	\$71,208

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FACEBOOK, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities		
Net income	\$ 15,230	\$ 11,665
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization		