Facebook Inc
Form S-1/A
May 09, 2012
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As filed with the Securities and Exchange Commission on May 9, 2012

Registration No. 333-179287

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 6 to

Form S-1

REGISTRATION STATEMENT

Under

The Securities Act of 1933

Facebook, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**7370**	**20-1665019**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(IRS Employer Identification No.)**

Facebook, Inc.

1601 Willow Road

Menlo Park, California 94025

(650) 308-7300

(Address, including zip code, and telephone number, including area code, of Registrant s principal executive offices)

David A. Ebersman

Chief Financial Officer

Facebook, Inc.

1601 Willow Road

Menlo Park, California 94025

(650) 308-7300

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Please send copies of all communications to:

Gordon K. Davidson, Esq.	**Theodore W. Ullyot, Esq.**	**William H. Hinman, Jr., Esq.**
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801 California Street	**1601 Willow Road**	**Palo Alto, California 94304**
Mountain View, California 94041	**Menlo Park, California 94025**	**(650) 251-5000**

(650) 988-8500 **(650) 308-7300**

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box: ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

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. (Check one):

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

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. Neither we nor the selling stockholders may sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and neither we nor the selling stockholders are soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS (Subject to Completion)

Issued May 9, 2012

337,415,352 Shares

CLASS A COMMON STOCK

Facebook, Inc. is offering 180,000,000 shares of its Class A common stock and the selling stockholders are offering 157,415,352 shares of Class A common stock. We will not receive any proceeds from the sale of shares by the selling stockholders. This is our initial public offering and no public market currently exists for our shares of Class A common stock. We anticipate that the initial public offering price will be between $28.00 and $35.00 per share.

We have two classes of common stock, Class A common stock and Class B common stock. The rights of the holders of Class A common stock and Class B common stock are identical, except voting and conversion rights. Each share of Class A common stock is entitled to one vote. Each share of Class B common stock is entitled to ten votes and is convertible at any time into one share of Class A common stock. The holders of our outstanding shares of Class B common stock will hold approximately 96.3% of the voting power of our outstanding capital stock following this offering, and our founder, Chairman, and CEO, Mark Zuckerberg, will hold or have the ability to control approximately 57.3% of the voting power of our outstanding capital stock following this offering.

We have applied to list our Class A common stock on the NASDAQ Global Select Market under the symbol FB.

We are a controlled company under the corporate governance rules for NASDAQ-listed companies, and our board of directors has determined not to have an independent nominating function and instead to have the full board of directors be directly responsible for nominating members of our board.

Investing in our Class A common stock involves risks. See Risk Factors beginning on page 12.

PRICE $ A SHARE

	Price to Public	***Underwriting Discounts and Commissions***	***Proceeds to Facebook***	***Proceeds to Selling Stockholders***
Per share	$	$	$	$
Total	$	$	$	$

We and the selling stockholders have granted the underwriters the right to purchase up to an additional 50,612,302 shares of Class A common stock to cover over-allotments.

The Securities and Exchange Commission and state regulators have not approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of Class A common stock to purchasers on , 2012.

MORGAN STANLEY *J.P. MORGAN* *GOLDMAN, SACHS & CO.*

BofA MERRILL LYNCH *BARCLAYS* *ALLEN & COMPANY LLC*

CITIGROUP *CREDIT SUISSE* *DEUTSCHE BANK SECURITIES*
RBC CAPITAL MARKETS *WELLS FARGO SECURITIES*

, 2012

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Neither we, nor the selling stockholders, nor the underwriters, have authorized anyone to provide any information or to make any representations other than those contained in this prospectus or in any free writing prospectuses we have prepared. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. We and the selling stockholders are offering to sell, and seeking offers to buy, shares of our Class A common stock only in jurisdictions where offers and sales are permitted. The information in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of shares of our Class A common stock. Our business, financial condition, results of operations, and prospects may have changed since that date.

The information in this preliminary prospectus is not complete and is subject to change. No person should rely on the information contained in this document for any purpose other than participating in our proposed initial public offering, and only the preliminary prospectus issued May 9, 2012, is authorized by us to be used in connection with our proposed initial public offering. The preliminary prospectus will only be distributed by us and the underwriters named herein and no other person has been authorized by us to use this document to offer or sell any of our securities.

Until   , 2012 (25 days after the commencement of our initial public offering), all dealers that buy, sell, or trade shares of our Class A common stock, whether or not participating in our initial public offering, may be required to deliver a prospectus. This delivery requirement is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

For investors outside the United States: Neither we, nor the selling stockholders, nor the underwriters have done anything that would permit our initial public offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. Persons outside the United States who come into possession of this prospectus must inform themselves about, and observe any restrictions relating to, the offering of the shares of our Class A common stock and the distribution of this prospectus outside of the United States.

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PROSPECTUS SUMMARY

This summary highlights information contained in greater detail elsewhere in this prospectus. This summary is not complete and does not contain all of the information you should consider in making your investment decision. You should read the entire prospectus carefully before making an investment in our Class A common stock. You should carefully consider, among other things, our consolidated financial statements and the related notes and the sections entitled Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus.

FACEBOOK, INC.

Our mission is to make the world more open and connected.

People use Facebook to stay connected with their friends and family, to discover what is going on in the world around them, and to share and express what matters to them to the people they care about.

Developers can use the Facebook Platform to build applications (apps) and websites that integrate with Facebook to reach our global network of users and to build products that are more personalized, social, and engaging.

Advertisers can engage with more than 900 million monthly active users (MAUs) on Facebook or subsets of our users based on information they have chosen to share with us such as their age, location, gender, or interests. We offer advertisers a unique combination of reach, relevance, social context, and engagement to enhance the value of their ads.

We believe that we are at the forefront of enabling faster, easier, and richer communication between people and that Facebook has become an integral part of many of our users daily lives. We have experienced rapid growth in the number of users and their engagement.

- We had 901 million MAUs as of March 31, 2012, an increase of 33% as compared to 680 million MAUs as of March 31, 2011.

- We had 526 million daily active users (DAUs) on average in March 2012, an increase of 41% as compared to 372 million DAUs in March 2011.

- We had 488 million MAUs who used Facebook mobile products in March 2012.

There were more than 125 billion friend connections on Facebook as of March 31, 2012.

Our users generated an average of 3.2 billion Likes and Comments per day during the first quarter of 2012.

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For a description of how we calculate our MAUs and DAUs and factors that can affect these metrics, see Industry Data and User Metrics and Management s Discussion and Analysis of Financial Condition and Results of Operations Trends in Our User Metrics.

How We Create Value for Users

Our top priority is to build useful and engaging products that enable you to:

Connect with Your Friends. With more than 900 million MAUs worldwide, our users are increasingly able to find and stay connected with their friends, family, and colleagues on Facebook.

Discover and Learn. We believe that users come to Facebook to discover and learn more about what is going on in the world around them, particularly in the lives of their friends and family and with public figures and organizations that interest them.

Express Yourself. We enable our users to share and publish their opinions, ideas, photos, and activities to audiences ranging from their closest friends to our 900 million users, giving every user a voice within the Facebook community.

Control What You Share. Through Facebook s privacy and sharing settings, our users can control what they share and with whom they share it.

Experience Facebook Across the Web. Through apps and websites built by developers using the Facebook Platform, our users can interact with their Facebook friends while playing games, listening to music, watching movies, reading news, and engaging in other activities.

Stay Connected with Your Friends on Mobile Devices. Through the combination of our mobile sites, smartphone apps, and feature phone products, users can bring Facebook with them on mobile devices wherever they go.

Foundations of the Social Web

We believe that the web, including the mobile web, is evolving to become more social and personalized. This evolution is creating more rewarding experiences that are centered on people, their connections, and their interests. We believe that the following elements form the foundation of the social web:

Authentic Identity. We believe that using your real name, connecting to your real friends, and sharing your genuine interests online create more engaging and meaningful experiences. Representing yourself with your authentic identity online encourages you to behave with the same norms that foster trust and respect in your daily life offline. Authentic identity is core to the Facebook experience, and we believe that it is central to the future of the web. Our terms of service require you to use your real name and we encourage you to be your true self online, enabling us and Platform developers to provide you with more personalized experiences.

Social Graph. The Social Graph represents the connections between people and their friends and interests. Every person or entity is represented by a point within the graph, and the affiliations between people and their friends and interests form billions of connections between the points. Our mapping of the Social Graph enables Facebook and Platform developers to build more engaging user experiences that are based on these connections.

Social Distribution. Over time, people are consuming and creating more kinds of information at a faster pace across a broader range of devices. The growing volume of information makes it challenging to find meaningful and trusted content and to effectively make your voice heard. Facebook organizes and prioritizes content and serves as a powerful social distribution tool delivering to users what we believe they will find most compelling based on their friends and interests.

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How We Create Value for Developers Through the Facebook Platform

The Facebook Platform is a set of development tools and application programming interfaces (APIs) that enables developers to easily integrate with Facebook to create social apps and websites and to reach our 900 million users. Platform developers build experiences that allow our users to connect and share with friends while engaging in a wide range of activities. Platform developers range from a student on his or her computer at home to teams of programmers at leading websites. We are focused on the growth and success of Platform developers by enabling:

Personalized and Social Experiences. We enable Platform developers to create better products that are personalized and social and that offer new ways for our users to engage with friends and share experiences across the web and on mobile devices. For example, a Facebook user can visit the Pandora website and immediately begin listening to a personalized radio station that is customized based on the bands the user Likes on Facebook.

Social Distribution. We enable Platform developers to reach our global user base and use our social distribution channels to increase traffic to their apps and websites.

Payments. We provide an online payments infrastructure that enables Platform developers to receive payments from our users in an easy-to-use, secure, and trusted environment.

How We Create Value for Advertisers and Marketers

We offer advertisers and marketers a unique combination of reach, relevance, social context, and engagement:

Reach. With over 900 million MAUs, Facebook offers the ability to reach a vast consumer audience with our advertising solutions.

Relevance. Advertisers can specify that we show their ads to a subset of our users based on demographic factors and specific interests that they have chosen to share with us on Facebook or by using the Like button around the web. We allow advertisers to select relevant and appropriate audiences for their ads, ranging from millions of users in the case of global brands to hundreds of users in the case of smaller, local businesses.

Social Context. We believe that the recommendations of friends have a powerful influence on consumer interest and purchase decisions. We offer advertisers the ability to include social context with their marketing messages. Social context is information that highlights a friend s connections with a particular brand or business, for example, that a friend Liked a product or checked in at a restaurant. We believe that users find marketing messages more engaging when they include social context.

Engagement. We believe that the shift to a more social web creates new opportunities for businesses to engage with interested customers. Any brand or business can create a Facebook Page to stimulate an ongoing dialog with our users.

Our Market Opportunity

Our Advertising Market Opportunity

Advertisers objectives range from building long-term brand awareness to stimulating an immediate purchase. We offer advertising solutions that are designed to be more engaging and relevant for users in order to help advertisers better achieve their goals. Facebook s combination of reach, relevance, social context, and engagement gives advertisers enhanced opportunities to generate brand awareness and affiliation, while also creating new ways to generate near-term demand for their products from consumers likely to have purchase intent. According to an IDC report dated August 2011, total worldwide advertising spending in 2010 was $588 billion. Our addressable market opportunity includes portions of many existing advertising markets, including the traditional offline branded advertising, online display advertising, online performance-based advertising, and mobile advertising markets.

Advertising on the social web is a significant market opportunity that is still emerging and evolving. We believe that most advertisers are still learning and experimenting with the best ways to leverage Facebook to create more social and valuable ads.

Our Market Opportunity for Payments

When users purchase virtual and digital goods from our Platform developers using our Payments infrastructure, we receive fees that represent a portion of the transaction value. Currently, substantially all of the Payments transactions between our users and Platform developers are for virtual goods used in social games. According to an NPD In-Stat report dated April 2012, the worldwide revenue generated from the sale of virtual goods on social networking sites, online worlds, and casual games was $9 billion in 2011, and is forecasted to increase to $14 billion by 2016. We currently require Payments integration in games on Facebook, and we may seek to extend the use of Payments to other types of apps in the future.

Our Strategy

We are in the early days of pursuing our mission to make the world more open and connected. We have a significant opportunity to further enhance the value we deliver to users, developers, and advertisers. Key elements of our strategy are:

Expand Our Global User Community. We continue to focus on growing our user base across all geographies, including relatively less-penetrated, large markets such as Brazil, Germany, India, Japan, Russia, and South Korea. We intend to grow our user base by continuing our marketing and user acquisition efforts and enhancing our products, including mobile apps, in order to make Facebook more accessible and useful.

Build Great Social Products to Increase Engagement. We prioritize product development investments that we believe will create engaging interactions between our users, developers, and advertisers on Facebook, across the web, and on mobile devices. We continue to invest significantly in improving our core products such as News Feed, Photos, and Groups, developing new products such as Timeline and Ticker, and enabling new Platform apps and website integrations.

Provide Users with the Most Compelling Experience. Facebook users are sharing and receiving more information across a broader range of devices. To provide the most compelling user experience, we continue to develop products and technologies focused on optimizing our social distribution channels to deliver the most useful content to each user by analyzing and organizing vast amounts of information in real time.

Build Engaging Mobile Experiences. We are devoting substantial resources to developing engaging mobile products and experiences for a wide range of platforms, including smartphones and feature phones. In addition, we are working across the mobile industry with operators, hardware manufacturers, operating system providers, and developers to improve the Facebook experience on mobile devices and make Facebook available to more people around the world. We believe that mobile usage of Facebook is critical to maintaining user growth and engagement over the long term.

Enable Developers to Build Great Social Products Using the Facebook Platform. The success of our Platform developers and the vibrancy of our Platform ecosystem are key to increasing user engagement.

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We continue to invest in tools and APIs that enhance the ability of Platform developers to deliver products that are more social and personalized and better engage users on Facebook, across the web, and on mobile devices. Additionally, we plan to invest in enhancing our Payments offerings and in making the Payments experience on Facebook as convenient as possible for users and Platform developers.

Improve Ad Products for Advertisers and Users. We plan to continue to improve our ad products in order to create more value for advertisers and enhance their ability to make their advertising more social and relevant for users. Our advertising strategy centers on the belief that ad products that are social, relevant, and well-integrated with other content on Facebook can enhance the user experience while providing an attractive return for advertisers. We intend to invest in additional products for our advertisers and marketers while continuing to balance our monetization objectives with our commitment to optimizing the user experience.

Summary Risk Factors

Our business is subject to numerous risks described in the section entitled Risk Factors and elsewhere in this prospectus. You should carefully consider these risks before making an investment. Some of these risks include:

- If we fail to retain existing users or add new users, or if our users decrease their level of engagement with Facebook, our revenue, financial results, and business may be significantly harmed;
- We generate a substantial majority of our revenue from advertising. The loss of advertisers, or reduction in spending by advertisers with Facebook, could seriously harm our business;
- Growth in use of Facebook through our mobile products, where our ability to monetize is unproven, as a substitute for use on personal computers may negatively affect our revenue and financial results;
- Facebook user growth and engagement on mobile devices depend upon effective operation with mobile operating systems, networks, and standards that we do not control;
- We may not be successful in our efforts to grow and further monetize the Facebook Platform;
- Our business is highly competitive, and competition presents an ongoing threat to the success of our business;
- Improper access to or disclosure of our users information, or violation of our terms of service or policies, could harm our reputation and adversely affect our business;
- Our business is subject to complex and evolving U.S. and foreign laws and regulations regarding privacy, data protection, and other matters. Many of these laws and regulations are subject to change and uncertain interpretation, and could harm our business;
- Our CEO has control over key decision making as a result of his control of a majority of our voting stock;
- The loss of Mark Zuckerberg, Sheryl K. Sandberg, or other key personnel could harm our business;

We anticipate that we will expend substantial funds in connection with tax withholding and remittance obligations related to the initial settlement of our restricted stock units (RSUs);

The market price of our Class A common stock may be volatile or may decline, and you may not be able to resell your shares at or above the initial public offering price; and

Substantial blocks of our total outstanding shares may be sold into the market as lock-up periods end, as further described in Shares Eligible for Future Sale. If there are substantial sales of shares of our common stock, the price of our Class A common stock could decline.

Mr. Zuckerberg s Voting Rights and Our Status as a Controlled Company

Mr. Zuckerberg, who after our initial public offering will control approximately 57.3% of the voting power of our outstanding capital stock, will have the ability to control the outcome of matters submitted to our stockholders for approval, including the election of our directors, as well as the overall management and direction of our company. In the event of his death, the shares of our capital stock that Mr. Zuckerberg owns will be transferred to the persons or entities that he designates.

Because Mr. Zuckerberg controls a majority of our outstanding voting power, we are a controlled company under the corporate governance rules for NASDAQ-listed companies. Therefore, we are not required to have a majority of our board of directors be independent, nor are we required to have a compensation committee or an independent nominating function. In light of our status as a controlled company, our board of directors has determined not to have an independent nominating function and to have the full board of directors be directly responsible for nominating members of our board.

Corporate Information

We were incorporated in Delaware in July 2004. Unless expressly indicated or the context requires otherwise, the terms Facebook, company, we, us, and our in this prospectus 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. Our principal executive offices are located at 1601 Willow Road, Menlo Park, California 94025, and our telephone number is (650) 308-7300. Our website address is www.facebook.com. The information on or that can be accessed through our website is not part of this prospectus.

Facebook, the Facebook logo, FB, the Like Button, f8, and our other registered or common law trademarks, service marks, or trade names appearing in this prospectus are the property of Facebook, Inc. Other trademarks, service marks, or trade names appearing in this prospectus are the property of their respective owners.

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THE OFFERING

Class A common stock offered	
By us	180,000,000 shares
By the selling stockholders	157,415,352 shares
Total	337,415,352 shares
Class A common stock to be outstanding after our initial public offering	598,396,119 shares
Class B common stock to be outstanding after our initial public offering	1,539,688,918 shares
Total Class A and Class B common stock to be outstanding after our initial public offering	2,138,085,037 shares
Over-allotment option of Class A common stock offered	
By us	6,029,988 shares
By the selling stockholders	44,582,314 shares
Total	50,612,302 shares
Use of proceeds	We estimate that our net proceeds from the sale of the Class A common stock that we are offering will be approximately $5.6 billion, assuming an initial public offering price of $31.50 per share, which is the midpoint of the price range on the cover page of this prospectus, and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

The principal purposes of our initial public offering are to create a public market for our Class A common stock and thereby enable future access to the public equity markets by us and our employees, obtain additional capital, and facilitate an orderly distribution of shares for the selling stockholders. We intend to use the net proceeds to us from our initial public offering for working capital and other general corporate purposes; however we do not have any specific uses of the net proceeds planned. We may use some of the net proceeds to us to satisfy a portion of the anticipated tax withholding and remittance obligations related to the initial settlement of our outstanding RSUs. Additionally, we may use a portion of the proceeds to us for acquisitions of complementary businesses, technologies, or other assets.

We will not receive any proceeds from the sale of shares of Class A common stock by the selling stockholders. In connection with our initial public offering, Mark Zuckerberg, our founder, Chairman, and CEO, will exercise an outstanding stock option with respect to 60,000,000 shares of Class B common stock and will then offer 30,200,000 of those shares as Class A common stock in our initial public offering. We expect that the substantial majority of the net proceeds Mr. Zuckerberg will receive upon such sale will be used to satisfy taxes that he will incur in connection with the option exercise. See Use of Proceeds.

Voting rights	Shares of Class A common stock are entitled to one vote per share.

Shares of Class B common stock are entitled to ten votes per share.

Holders of our Class A common stock and Class B common stock will generally vote together as a single class, unless otherwise required by law. Mr. Zuckerberg, who after our initial public offering will control more than 57.3% of the voting power of our outstanding capital stock, will have the ability to control the outcome of matters submitted to our stockholders for approval, including the election of our directors. See Description of Capital Stock.

Proposed NASDAQ Global Select Market symbol	FB

The number of shares of Class A and Class B common stock to be outstanding after our initial public offering includes: (i) 117,549,393 shares of our Class A common stock and 1,780,535,644 shares of our Class B common stock outstanding as of March 31, 2012; and (ii) the issuance of 60,000,000 shares of our Class B common stock upon the partial exercise by Mr. Zuckerberg of an outstanding stock option to purchase 120,000,000 shares of our Class B common stock and the automatic conversion of 30,200,000 of those shares into an equivalent number of shares of Class A common stock upon their sale in our initial public offering, and excludes:

- 116,756,442 shares of Class B common stock issuable upon the exercise of options outstanding as of March 31, 2012 under our 2005 Stock Plan, with a weighted-average exercise price of approximately $0.94 per share;

- 60,000,000 shares of Class B common stock issuable upon the exercise of the remaining portion of an option held by Mr. Zuckerberg, with an exercise price of $0.06 per share;

- 378,429,048 shares of Class B common stock subject to RSUs outstanding as of March 31, 2012 under our 2005 Stock Plan;

- 22,999,412 shares of common stock issuable upon completion of our acquisition of Instagram, Inc.;

- 25,257,815 shares of Class B common stock subject to RSUs granted under our 2005 Stock Plan and 40,000 shares of Class A common stock issued between April 1, 2012 and May 3, 2012; and

- 77,466,293 shares of our common stock reserved for future issuance under our equity compensation plans, consisting of 25,000,000 shares of Class A common stock reserved for issuance under our 2012 Equity Incentive Plan, and 52,466,293 shares of Class B common stock reserved as of March 31, 2012

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for issuance under our 2005 Stock Plan (which reserve includes the 25,257,815 shares of Class B common stock subject to RSUs granted after March 31, 2012). On the date of this prospectus, any remaining shares available for issuance under our 2005 Stock Plan will be added to the shares reserved under our 2012 Equity Incentive Plan and we will cease granting awards under the 2005 Stock Plan. Our 2012 Equity Incentive Plan also provides for automatic annual increases in the number of shares reserved thereunder and for increases based on forfeited or withheld shares and other events, as more fully described in Executive Compensation Employee Benefit Plans.

Unless expressly indicated or the context requires otherwise, all information in this prospectus assumes:

the conversion of all outstanding shares of our convertible preferred stock as of March 31, 2012 into 545,401,443 shares of Class B common stock in connection with our initial public offering;

the automatic conversion of 121,788,489 shares of our Class B common stock into an equivalent number of shares of our Class A common stock upon their sale by the selling stockholders in our initial public offering;

the conversion by certain of our existing stockholders pursuant to contractual agreements of an aggregate of 179,058,237 shares of our Class B common stock into an equivalent number of shares of our Class A common stock in connection with our initial public offering;

no exercise by the underwriters of their right to purchase up to an additional 50,612,302 shares of Class A common stock from us and the selling stockholders to cover over-allotments; and

the filing of our restated certificate of incorporation and the effectiveness of our restated bylaws in connection with our initial public offering.

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SUMMARY CONSOLIDATED FINANCIAL DATA

The following table summarizes our consolidated financial data. We have derived the summary consolidated statements of income data for the years ended December 31, 2009, 2010, and 2011 from our audited consolidated financial statements included elsewhere in this prospectus. The consolidated statements of income data for the three months ended March 31, 2011 and 2012, and the consolidated balance sheet data as of March 31, 2012 have been derived from our unaudited consolidated financial statements appearing elsewhere in this prospectus. In our opinion, such financial statements include all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of the financial information set forth in those statements. Our historical results are not necessarily indicative of our results in any future period. The summary of our consolidated financial data set forth below should be read together with our consolidated financial statements and the related notes, as well as the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations, included elsewhere in this prospectus.

	Year Ended December 31,			Three Months Ended March 31,	
	2009	2010	2011	2011	2012
	(in millions, except per share data)				
Consolidated Statements of Income Data:					
Revenue	$ 777	$ 1,974	$ 3,711	$ 731	$ 1,058
Costs and expenses[1]:					
Cost of revenue	223	493	860	167	277
Marketing and sales	115	184	427	68	159
Research and development	87	144	388	57	153
General and administrative	90	121	280	51	88
Total costs and expenses	515	942	1,955	343	677
Income from operations	262	1,032	1,756	388	381
Interest and other income (expense), net	(8)	(24)	(61)	10	1
Income before provision for income taxes	254	1,008	1,695	398	382
Provision for income taxes	25	402	695	165	177
Net income	$ 229	$ 606	$ 1,000	$ 233	$ 205
Net income attributable to Class A and Class B common stockholders	$ 122	$ 372	$ 668	$ 153	$ 137
Earnings per share attributable to Class A and Class B common stockholders[2]:					
Basic	$ 0.12	$ 0.34	$ 0.52	$ 0.12	$ 0.10
Diluted	$ 0.10	$ 0.28	$ 0.46	$ 0.11	$ 0.09
Pro forma earnings per share attributable to Class A and Class B common stockholders[2]:					
Basic			$ 0.49		$ 0.10
Diluted			$ 0.43		$ 0.09

(1) Costs and expenses in 2009, 2010, and 2011 and the first quarter of 2011 and 2012 include share-based compensation expense of $27 million, $20 million, $217 million, $7 million, and $103 million, respectively, as follows:

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	Year Ended December 31, 2009	2010	2011	Three Months Ended March 31, 2011	2012
			(in millions)		
Cost of revenue	$	$	$ 9	$	$ 4
Marketing and sales	2	2	43		23
Research and development	6	9	114	4	60
General and administrative	19	9	51	3	16
Total share-based compensation expense	$ 27	$ 20	$ 217	$ 7	$ 103

(2) See note 2 of the notes to our consolidated financial statements for a description of how we compute basic and diluted earnings per share attributable to Class A and Class B common stockholders and pro forma basic and diluted earnings per share attributable to Class A and Class B common stockholders.

	March 31, 2012 Actual	Pro Forma(1)	Pro Forma As Adjusted(2)(3)
		(in millions)	
Consolidated Balance Sheet Data:			
Cash, cash equivalents, and marketable securities	$ 3,910	$3,910	$ 9,511
Working capital	3,655	3,980	9,581
Property and equipment, net	1,855	1,855	1,855
Total assets	6,859	7,184	12,785
Total liabilities	1,587	1,587	1,587
Additional paid-in capital	2,853	4,433	10,034
Retained earnings	1,811	1,171	1,171
Total stockholders equity	5,272	5,597	11,198

(1) The pro forma consolidated balance sheet data as of March 31, 2012 presents our consolidated balance sheet data to give effect to the automatic conversion of all of our outstanding shares of convertible preferred stock into shares of Class B common stock and to also give effect to a share-based compensation expense of approximately $965 million associated with RSUs granted prior to 2011, for which the service condition was satisfied as of March 31, 2012 and which we expect to record upon completion of our initial public offering, as further described in Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Share-based Compensation. The pro forma adjustment related to share-based compensation expense of approximately $965 million has been reflected as an increase to additional paid-in capital and the associated tax effect of $325 million has been netted against this charge, resulting in a net reduction of $640 million to retained earnings. The income tax effects have been reflected as an increase to deferred tax assets included in prepaid expenses and other current assets, to reflect the anticipated future tax benefits upon settlement of these RSUs.

(2) The pro forma as adjusted consolidated balance sheet data reflects the items described in footnote (1) above and gives effect to our receipt of estimated net proceeds from the sale of shares of Class A common stock that we are offering at an assumed initial public offering price of the Class A common stock of $31.50 per share, the midpoint of the price range on the cover page of this prospectus, after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. A $1.00 increase (decrease) in the assumed initial public offering price of $31.50 per share would increase (decrease) each of cash, cash equivalents, and marketable securities, working capital, total assets, additional paid-in capital, and total stockholders equity by $178 million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same, and after deducting the estimated underwriting discounts and commissions.

(3) The pro forma as adjusted data discussed above is illustrative only and will be adjusted based on the actual initial public offering price and other terms of our initial public offering determined at pricing.

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RISK FACTORS

Investing in our Class A common stock involves a high degree of risk. You should consider carefully the risks and uncertainties described below, together with all of the other information in this prospectus, including the consolidated financial statements and the related notes included elsewhere in this prospectus, before deciding whether to invest in shares of our Class A common stock. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business. If any of the following risks actually occurs, our business, financial condition, results of operations, and future prospects could be materially and adversely affected. In that event, the market price of our Class A common stock could decline, and you could lose part or all of your investment.

Risks Related to Our Business and Industry

If we fail to retain existing users or add new users, or if our users decrease their level of engagement with Facebook, our revenue, financial results, and business may be significantly harmed.

The size of our user base and our users level of engagement are critical to our success. We had 901 million monthly active users (MAUs) as of March 31, 2012. Our financial performance has been and will continue to be significantly determined by our success in adding, retaining, and engaging active users. We anticipate that our active user growth rate will decline over time as the size of our active user base increases, and as we achieve higher market penetration rates. To the extent our active user growth rate slows, our business performance will become increasingly dependent on our ability to increase levels of user engagement in current and new markets. If people do not perceive our products to be useful, reliable, and trustworthy, we may not be able to attract or retain users or otherwise maintain or increase the frequency and duration of their engagement. A number of other social networking companies that achieved early popularity have since seen their active user bases or levels of engagement decline, in some cases precipitously. There is no guarantee that we will not experience a similar erosion of our active user base or engagement levels. A decrease in user retention, growth, or engagement could render Facebook less attractive to developers and advertisers, which may have a material and adverse impact on our revenue, business, financial condition, and results of operations. Any number of factors could potentially negatively affect user retention, growth, and engagement, including if:

- users increasingly engage with competing products;
- we fail to introduce new and improved products or if we introduce new products or services that are not favorably received;
- we are unable to successfully balance our efforts to provide a compelling user experience with the decisions we make with respect to the frequency, prominence, and size of ads and other commercial content that we display;
- we are unable to continue to develop products for mobile devices that users find engaging, that work with a variety of mobile operating systems and networks, and that achieve a high level of market acceptance;
- there are changes in user sentiment about the quality or usefulness of our products or concerns related to privacy and sharing, safety, security, or other factors;

we are unable to manage and prioritize information to ensure users are presented with content that is interesting, useful, and relevant to them;

there are adverse changes in our products that are mandated by legislation, regulatory authorities, or litigation, including settlements or consent decrees;

technical or other problems prevent us from delivering our products in a rapid and reliable manner or otherwise affect the user experience;

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- we adopt policies or procedures related to areas such as sharing or user data that are perceived negatively by our users or the general public;

- we fail to provide adequate customer service to users, developers, or advertisers;

- we, our Platform developers, or other companies in our industry are the subject of adverse media reports or other negative publicity; or

- our current or future products, such as the Facebook Platform, reduce user activity on Facebook by making it easier for our users to interact and share on third-party websites.

If we are unable to maintain and increase our user base and user engagement, our revenue, financial results, and future growth potential may be adversely affected.

We generate a substantial majority of our revenue from advertising. The loss of advertisers, or reduction in spending by advertisers with Facebook, could seriously harm our business.

The substantial majority of our revenue is currently generated from third parties advertising on Facebook. In 2009, 2010, and 2011 and the first quarter of 2011 and 2012, advertising accounted for 98%, 95%, 85%, 87%, and 82%, respectively, of our revenue. As is common in the industry, our advertisers typically do not have long-term advertising commitments with us. Many of our advertisers spend only a relatively small portion of their overall advertising budget with us. In addition, advertisers may view some of our products, such as sponsored stories and ads with social context, as experimental and unproven. Advertisers will not continue to do business with us, or they will reduce the prices they are willing to pay to advertise with us, if we do not deliver ads and other commercial content in an effective manner, or if they do not believe that their investment in advertising with us will generate a competitive return relative to other alternatives. Our advertising revenue could be adversely affected by a number of other factors, including:

- decreases in user engagement, including time spent on Facebook;

- increased user access to and engagement with Facebook through our mobile products, where we do not currently directly generate meaningful revenue, particularly to the extent that mobile engagement is substituted for engagement with Facebook on personal computers where we monetize usage by displaying ads and other commercial content;

- product changes or inventory management decisions we may make that reduce the size, frequency, or relative prominence of ads and other commercial content displayed on Facebook;

- our inability to improve our analytics and measurement solutions that demonstrate the value of our ads and other commercial content;

- decisions by advertisers to use our free products, such as Facebook Pages, instead of advertising on Facebook;

- loss of advertising market share to our competitors;

adverse legal developments relating to advertising, including legislative and regulatory developments and developments in litigation;

adverse media reports or other negative publicity involving us, our Platform developers, or other companies in our industry;

our inability to create new products that sustain or increase the value of our ads and other commercial content;

the degree to which users opt out of social ads or otherwise limit the potential audience of commercial content;

changes in the way online advertising is priced;

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- the impact of new technologies that could block or obscure the display of our ads and other commercial content; and
- the impact of macroeconomic conditions and conditions in the advertising industry in general.

The occurrence of any of these or other factors could result in a reduction in demand for our ads and other commercial content, which may reduce the prices we receive for our ads and other commercial content, or cause advertisers to stop advertising with us altogether, either of which would negatively affect our revenue and financial results.

Growth in use of Facebook through our mobile products, where our ability to monetize is unproven, as a substitute for use on personal computers may negatively affect our revenue and financial results.

We had 488 million MAUs who used Facebook mobile products in March 2012. While most of our mobile users also access Facebook through personal computers, we anticipate that the rate of growth in mobile usage will exceed the growth in usage through personal computers for the foreseeable future, in part due to our focus on developing mobile products to encourage mobile usage of Facebook. We have historically not shown ads to users accessing Facebook through mobile apps or our mobile website. In March 2012, we began to include sponsored stories in users mobile News Feeds. However, we do not currently directly generate any meaningful revenue from the use of Facebook mobile products, and our ability to do so successfully is unproven. We believe this increased usage of Facebook on mobile devices has contributed to the recent trend of our daily active users (DAUs) increasing more rapidly than the increase in the number of ads delivered. If users increasingly access Facebook mobile products as a substitute for access through personal computers, and if we are unable to successfully implement monetization strategies for our mobile users, or if we incur excessive expenses in this effort, our financial performance and ability to grow revenue would be negatively affected.

Facebook user growth and engagement on mobile devices depend upon effective operation with mobile operating systems, networks, and standards that we do not control.

There is no guarantee that popular mobile devices will continue to feature Facebook, or that mobile device users will continue to use Facebook rather than competing products. We are dependent on the interoperability of Facebook with popular mobile operating systems that we do not control, such as Android and iOS, and any changes in such systems that degrade our products functionality or give preferential treatment to competitive products could adversely affect Facebook usage on mobile devices. Additionally, in order to deliver high quality mobile products, it is important that our products work well with a range of mobile technologies, systems, networks, and standards that we do not control. We may not be successful in developing relationships with key participants in the mobile industry or in developing products that operate effectively with these technologies, systems, networks, or standards. In the event that it is more difficult for our users to access and use Facebook on their mobile devices, or if our users choose not to access or use Facebook on their mobile devices or use mobile products that do not offer access to Facebook, our user growth and user engagement could be harmed.

We may not be successful in our efforts to grow and further monetize the Facebook Platform.

We have made and are continuing to make major investments to enable developers to build applications (apps) and websites that integrate with the Facebook Platform. Existing and prospective Platform developers may not be successful in building apps or websites that create and maintain user engagement. Additionally, developers may choose to build on other platforms, including mobile platforms controlled by third parties, rather than building on the Facebook Platform. We are continuously seeking to balance the distribution objectives of our Platform developers with our desire to provide an optimal user experience, and we may not be successful in achieving a balance that continues to attract and retain Platform developers. From time to time, we have taken actions to reduce the volume of communications from apps to users on Facebook with the objective of enhancing the user experience, and such actions have reduced distribution from, user engagement with, and our monetization opportunities from, apps on Facebook. In some instances, these actions have adversely affected our relationships with Platform developers. If we are not successful in our efforts to grow our Platform or if we are unable to build and maintain good relations with Platform developers, our user growth and user engagement and our financial results may be adversely affected.

Additionally, we may not be successful in further monetizing the Facebook Platform. We currently monetize the Facebook Platform in several ways, including ads on pages generated by apps on Facebook, direct advertising on Facebook purchased by Platform developers to drive traffic to their apps and websites, and fees from our Platform developers use of our Payments infrastructure to sell virtual and digital goods to users. Apps built by developers of social games, particularly Zynga, are currently responsible for substantially all of our revenue derived from Payments. In addition, a relatively small percentage of our users have transacted with Facebook Payments. For example, in 2011, approximately 15 million users purchased virtual goods using Facebook Payments. If the Platform apps that currently generate revenue fail to grow or maintain their users and engagement, if Platform developers do not continue to introduce new apps that attract users and create engagement, if Platform developers reduce their advertising on Facebook, if we fail to maintain good relationships with Platform developers or attract new developers, or if Platform apps outside of social games do not gain popularity and generate significant revenue, our financial performance and ability to grow revenue could be adversely affected.

Our business is highly competitive. Competition presents an ongoing threat to the success of our business.

We face significant competition in almost every aspect of our business, including from companies such as Google, Microsoft, and Twitter, which offer a variety of Internet products, services, content, and online advertising offerings, as well as from mobile companies and smaller Internet companies that offer products and services that may compete with specific Facebook features. We also face competition from traditional and online media businesses for advertising budgets. We compete broadly with Google s social networking offerings, including Google+, and also with other, largely regional, social networks that have strong positions in particular countries, including Cyworld in Korea, Mixi in Japan, Orkut (owned by Google) in Brazil and India, and vKontakte in Russia. We would also face competition from companies in China such as Renren, Sina, and Tencent in the event that we are able to access the market in China in the future. As we introduce new products, as our existing products evolve, or as other companies introduce new products and services, we may become subject to additional competition.

Some of our current and potential competitors have significantly greater resources and better competitive positions in certain markets than we do. These factors may allow our competitors to respond more effectively than us to new or emerging technologies and changes in market requirements. Our competitors may develop products, features, or services that are similar to ours or that achieve greater market acceptance, may undertake more far-reaching and successful product development efforts or marketing campaigns, or may adopt more aggressive pricing policies. In addition, Platform partners may use information shared by our users through the Facebook Platform in order to develop products or features that compete with us. Certain competitors, including Google, could use strong or dominant positions in one or more markets to gain competitive advantage against us in areas where we operate including: by integrating competing social networking platforms or features into products they control such as search engines, web browsers, or mobile device operating systems; by making acquisitions; or by making access to Facebook more difficult. As a result, our competitors may acquire and engage users at the expense of the growth or engagement of our user base, which may negatively affect our business and financial results.

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

- the usefulness, ease of use, performance, and reliability of our products compared to our competitors;
- the size and composition of our user base;

the engagement of our users with our products;

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- the timing and market acceptance of products, including developments and enhancements to our or our competitors products;
- our ability to monetize our products, including our ability to successfully monetize mobile usage;
- the frequency, size, and relative prominence of the ads and other commercial content displayed by us or our competitors;
- customer service and support efforts;
- marketing and selling efforts;
- our ability to establish and maintain developers interest in building on the Facebook Platform;
- changes mandated by legislation, regulatory authorities, or litigation, including settlements and consent decrees, some of which may have a disproportionate effect on us;
- acquisitions or consolidation within our industry, which may result in more formidable competitors;
- our ability to attract, retain, and motivate talented employees, particularly software engineers;
- our ability to cost-effectively manage and grow our operations; and
- our reputation and brand strength relative to our competitors.

If we are not able to effectively compete, our user base and level of user engagement may decrease, which could make us less attractive to developers and advertisers and materially and adversely affect our revenue and results of operations.

Action by governments to restrict access to Facebook in their countries could substantially harm our business and financial results.

It is possible that governments of one or more countries may seek to censor content available on Facebook in their country, restrict access to Facebook from their country entirely, or impose other restrictions that may affect the accessibility of Facebook in their country for an extended period of time or indefinitely. For example, access to Facebook has been or is currently restricted in whole or in part in China, Iran, North Korea, and Syria. In addition, governments in other countries may seek to restrict access to Facebook if they consider us to be in violation of their laws. In the event that access to Facebook is restricted, in whole or in part, in one or more countries or our competitors are able to successfully penetrate geographic markets that we cannot access, our ability to retain or increase our user base and user engagement may be adversely affected, we may not be able to maintain or grow our revenue as anticipated, and our financial results could be adversely affected.

Our efforts to expand the Facebook Platform may result in users increasingly engaging with our Platform developers Facebook-integrated websites instead of engaging on Facebook, which may negatively affect our advertising revenue and harm our business.

We actively support Platform developers efforts to develop products that integrate with Facebook on the developers websites. Our Platform developers may choose to prioritize building or supporting Facebook-integrated websites as opposed to building or supporting apps that run on the Facebook website. When users visit a Platform partner s Facebook-integrated website, we do not deliver advertisements, whereas we would have displayed advertisements to these users if their activity had taken place on the Facebook website. If Facebook-integrated websites draw users away from our website, it may reduce or slow the growth of our user activity that generates advertising opportunities, which could negatively affect our advertising revenue. Although we believe that there are significant long-term benefits to Facebook resulting from increased engagement on Facebook-integrated websites, these benefits may not offset the possible loss of advertising revenue, in which case our business could be harmed.

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Our new products and changes to existing products could fail to attract or retain users or generate revenue.

Our ability to retain, increase, and engage our user base and to increase our revenue will depend heavily on our ability to create successful new products, both independently and in conjunction with Platform developers or other third parties. We may introduce significant changes to our existing products or develop and introduce new and unproven products, including using technologies with which we have little or no prior development or operating experience. If new or enhanced products fail to engage users, developers, or advertisers, we may fail to attract or retain users or to generate sufficient revenue, operating margin, or other value to justify our investments, and our business may be adversely affected. In the future, we may invest in new products and initiatives to generate revenue, but there is no guarantee these approaches will be successful. If we are not successful with new approaches to monetization, we may not be able to maintain or grow our revenue as anticipated or recover any associated development costs, and our financial results could be adversely affected.

Our culture emphasizes rapid innovation and prioritizes user engagement over short-term financial results.

We have a culture that encourages employees to quickly develop and launch new and innovative products. As our business grows and becomes more complex, our cultural emphasis on moving quickly may result in unintended outcomes or decisions that are poorly received by users, developers, or advertisers. Our culture also prioritizes our user engagement over short-term financial results, and we frequently make product decisions that may reduce our short-term revenue or profitability if we believe that the decisions are consistent with our mission and benefit the aggregate user experience and will thereby improve our financial performance over the long term. As an example, we believe that the recent trend of our DAUs increasing more rapidly than the increase in the number of ads delivered has been due in part to certain pages having fewer ads per page as a result of these kinds of product decisions. These decisions may not produce the long-term benefits that we expect, in which case our user growth and engagement, our relationships with developers and advertisers, and our business and results of operations could be harmed.

If we are not able to maintain and enhance our brand, or if events occur that damage our reputation and brand, our ability to expand our base of users, developers, and advertisers may be impaired, and our business and financial results may be harmed.

We believe that the Facebook brand has significantly contributed to the success of our business. We also believe that maintaining and enhancing our brand is critical to expanding our base of users, developers, and advertisers. Many of our new users are referred by existing users, and therefore we strive to ensure that our users remain favorably inclined towards Facebook. Maintaining and enhancing our brand will depend largely on our ability to continue to provide useful, reliable, trustworthy, and innovative products, which we may not do successfully. We may introduce new products or terms of service that users do not like, which may negatively affect our brand. Additionally, the actions of our Platform developers may affect our brand if users do not have a positive experience using third-party apps and websites integrated with Facebook. We have in the past experienced, and we expect that in the future we will continue to experience, media, legislative, or regulatory scrutiny of our decisions regarding user privacy or other issues, which may adversely affect our reputation and brand. We also may fail to provide adequate customer service, which could erode confidence in our brand. Our brand may also be negatively affected by the actions of users that are deemed to be hostile or inappropriate to other users, or by users acting under false or inauthentic identities. Maintaining and enhancing our brand may require us to make substantial investments and these investments may not be successful. If we fail to successfully promote and maintain the Facebook brand or if we incur excessive expenses in this effort, our business and financial results may be adversely affected.

Improper access to or disclosure of our users information, or violation of our terms of service or policies, could harm our reputation and adversely affect our business.

Our efforts to protect the information that our users have chosen to share using Facebook may be unsuccessful due to the actions of third parties, software bugs or other technical malfunctions, employee error or malfeasance, or other factors. In addition, third parties may attempt to fraudulently induce employees or users to disclose information in order to gain access to our data or our users data. If any of these events occur, our users information could be accessed or disclosed improperly. Our Data Use Policy governs the use of information that

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users have chosen to share using Facebook and how that information may be used by us and third parties. Some Platform developers may store information provided by our users through apps on the Facebook Platform or websites integrated with Facebook. If these third parties or Platform developers fail to adopt or adhere to adequate data security practices or fail to comply with our terms and policies, or in the event of a breach of their networks, our users data may be improperly accessed or disclosed.

Any incidents involving unauthorized access to or improper use of the information of our users or incidents involving violation of our terms of service or policies, including our Data Use Policy, could damage our reputation and our brand and diminish our competitive position. In addition, the affected users or government authorities could initiate legal or regulatory action against us in connection with such incidents, which could cause us to incur significant expense and liability or result in orders or consent decrees forcing us to modify our business practices. Any of these events could have a material and adverse effect on our business, reputation, or financial results.

Unfavorable media coverage could negatively affect our business.

We receive a high degree of media coverage around the world. Unfavorable publicity regarding, for example, our privacy practices, product changes, product quality, litigation or regulatory activity, or the actions of our Platform developers or our users, could adversely affect our reputation. Such negative publicity also could have an adverse effect on the size, engagement, and loyalty of our user base and result in decreased revenue, which could adversely affect our business and financial results.

Our financial results will fluctuate from quarter to quarter, which makes them difficult to predict.

Our quarterly financial results have fluctuated in the past and will fluctuate in the future. Additionally, we have a limited operating history with the current scale of our business, which makes it difficult to forecast our future results. As a result, you should not rely upon our past quarterly financial results as indicators of future performance. You should take into account the risks and uncertainties frequently encountered by companies in rapidly evolving markets. Our financial results in any given quarter can be influenced by numerous factors, many of which we are unable to predict or are outside of our control, including:

- our ability to maintain and grow our user base and user engagement;
- our ability to attract and retain advertisers in a particular period;
- seasonal fluctuations in spending by our advertisers;
- the number of ads shown to users;
- the pricing of our ads and other products;
- our ability to increase payments and other fees revenue;

- the diversification and growth of revenue sources beyond current advertising and Payments;
- the development and introduction of new products or services by us or our competitors;
- increases in marketing, sales, and other operating expenses that we may incur to grow and expand our operations and to remain competitive;
- our ability to maintain gross margins and operating margins;
- our ability to obtain equipment and components for our data centers and other technical infrastructure in a timely and cost-effective manner;
- system failures or breaches of security or privacy;
- inaccessibility of Facebook due to third-party actions;

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share-based compensation expense including approximately $965 million that we will incur in the quarter of the completion of our initial public offering in connection with the vesting of restricted stock units (RSUs) granted prior to 2011 for which the service condition was satisfied as of March 31, 2012;

adverse litigation judgments, settlements, or other litigation-related costs;

changes in the legislative or regulatory environment, including with respect to privacy, or enforcement by government regulators, including fines, orders, or consent decrees;

fluctuations in currency exchange rates and changes in the proportion of our revenue and expenses denominated in foreign currencies;

fluctuations in the market values of our portfolio investments and in interest rates;

changes in U.S. generally accepted accounting principles; and

changes in business or macroeconomic conditions.

In 2011 and the first quarter of 2012, we estimate that up to 19% and 15% of our revenue, respectively, was derived from Payments processing fees from Zynga, direct advertising from Zynga, and revenue from third parties for ads shown on pages generated by Zynga apps. If Zynga does not maintain its level of engagement with our users or if we are unable to successfully maintain our relationship with Zynga, our financial results could be harmed.

In 2011 and the first quarter of 2012, Zynga directly accounted for approximately 12% and 11%, respectively, of our revenue, which was comprised of revenue derived from Payments processing fees related to Zynga s sales of virtual goods and from direct advertising purchased by Zynga. Additionally, Zynga s apps generate pages on which we display ads from other advertisers; for 2011 and the first quarter of 2012, we estimate that an additional approximately 7% and 4%, respectively, of our revenue was generated from the display of these ads. Zynga has recently launched games on its own website and on non-Facebook platforms, and Zynga may choose to try to migrate users from existing Facebook-integrated games to other websites or platforms. We may fail to maintain good relations with Zynga or Zynga may decide to reduce or cease its investments in games on the Facebook Platform. If the use of Zynga games on our Platform declines for these or other reasons, our financial results may be adversely affected.

We expect our rates of growth will decline in the future.

We believe that our rates of user and revenue growth will decline over time. For example, our revenue grew 154% from 2009 to 2010, 88% from 2010 to 2011, and 45% from the first quarter of 2011 to the same period in 2012. Historically, our user growth has been a primary driver of growth in our revenue. We expect that our user growth and revenue growth rates will decline as the size of our active user base increases and as we achieve higher market penetration rates. As our growth rates decline, investors perceptions of our business may be adversely affected and the market price of our Class A common stock could decline.

Our business is subject to complex and evolving U.S. and foreign laws and regulations regarding privacy, data protection, and other matters. Many of these laws and regulations are subject to change and uncertain interpretation, and could result in claims, changes to our business practices, increased cost of operations, or declines in user growth or engagement, or otherwise harm our business.

We are subject to a variety of laws and regulations in the United States and abroad that involve matters central to our business, including user privacy, rights of publicity, data protection, content, intellectual property, distribution, electronic contracts and other communications, competition, protection of minors, consumer protection, taxation, and online payment services. Foreign data protection, privacy, and other laws and regulations are often more restrictive than those in the United States. These U.S. federal and state and foreign laws and regulations are constantly evolving and can be subject to significant change. In addition, the application and interpretation of these laws and regulations are often uncertain, particularly in the new and rapidly evolving industry in which we operate. For example, the interpretation of some laws and regulations that govern the use of names and likenesses in connection with advertising and marketing activities is unsettled and developments in this area could affect the manner in which we design our products, as well as our terms of use. A number of proposals are pending before federal, state, and foreign legislative and regulatory bodies that could significantly affect our business. For example, a revision to the 1995 European Union Data Protection Directive is currently being considered by European legislative bodies that may include more stringent operational requirements for data processors and significant penalties for non-compliance. Similarly, there have been a number of recent legislative proposals in the United States, at both the federal and state level, that would impose new obligations in areas such as privacy and liability for copyright infringement by third parties. These existing and proposed laws and regulations can be costly to comply with and can delay or impede the development of new products, result in negative publicity, increase our operating costs, require significant management time and attention, and subject us to claims or other remedies, including fines or demands that we modify or cease existing business practices.

We have been subject to regulatory investigations and settlements and we expect to continue to be subject to such proceedings in the future, which could cause us to incur substantial costs or require us to change our business practices in a manner materially adverse to our business.

From time to time, we receive inquiries from regulators regarding our compliance with laws and other matters. For example, in 2011, we reached agreement with the Federal Trade Commission (FTC) to resolve an investigation into various practices by entering into a 20-year settlement agreement that, among other things, requires us to establish and refine certain practices with respect to treatment of user data and privacy settings and also requires that we complete bi-annual independent privacy audits. As another example, in 2011 the Irish Data Protection Commissioner (DPC) conducted an audit of the data, security, and privacy practices and policies of Facebook Ireland, which is the data controller for Facebook users outside the United States and Canada, and released a report of its conclusions in December 2011. The FTC and DPC have investigated and audited aspects of our products and practices, and we expect to continue to be the subject of regulatory investigations and audits in the future by these and other regulators throughout the world.

It is possible that a regulatory inquiry might result in changes to our policies or practices. Violation of existing or future regulatory orders or consent decrees could subject us to substantial monetary fines and other penalties that could negatively affect our financial condition and results of operations. In addition, it is possible that future orders issued by, or enforcement actions initiated by, regulatory authorities could cause us to incur substantial costs or require us to change our business practices in a manner materially adverse to our business.

If we are unable to protect our intellectual property, the value of our brand and other intangible assets may be diminished, and our business may be adversely affected.

We rely and expect to continue to rely on a combination of confidentiality and license agreements with our employees, consultants, and third parties with whom we have relationships, as well as trademark, copyright, patent, trade secret, and domain name protection laws, to protect our proprietary rights. In the United States and internationally, we have filed various applications for protection of certain aspects of our intellectual property, and we currently hold a number of issued patents in multiple jurisdictions. In addition, in the future we may acquire additional patents or patent portfolios, which could require significant cash expenditures. However, third parties may knowingly or unknowingly infringe our proprietary rights, third parties may challenge proprietary rights held by us, and pending and future trademark and patent applications may not be approved. In addition, effective intellectual property protection may not be available in every country in which we operate or intend to operate our business. In any or all of these cases, we may be required to expend significant time and expense in order to prevent infringement or to enforce our rights. Although we have taken measures to protect our proprietary rights, there can be no assurance that others will not offer products or concepts that are substantially similar to ours and compete with our business. In addition, we regularly contribute software source code under open source licenses and have made other technology we developed available under other open licenses, and we include open source software in

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our products. For example, we have contributed certain specifications and designs related to our data center equipment to the Open Compute Project Foundation, a non-profit entity that shares and develops such information with the technology community, under the Open Web Foundation License. As a result of our open source contributions and the use of open source in our products, we may license or be required to license innovations that turn out to be material to our business and may also be exposed to increased litigation risk. If the protection of our proprietary rights is inadequate to prevent unauthorized use or appropriation by third parties, the value of our brand and other intangible assets may be diminished and competitors may be able to more effectively mimic our service and methods of operations. Any of these events could have an adverse effect on our business and financial results.

We are currently, and expect to be in the future, party to patent lawsuits and other intellectual property rights claims that are expensive and time consuming, and, if resolved adversely, could have a significant impact on our business, financial condition, or results of operations.

Companies in the Internet, technology, and media industries own large numbers of patents, copyrights, trademarks, and trade secrets, and frequently enter into litigation based on allegations of infringement, misappropriation, or other violations of intellectual property or other rights. In addition, various non-practicing entities that own patents and other intellectual property rights often attempt to aggressively assert their rights in order to extract value from technology companies. Furthermore, from time to time we may introduce new products, including in areas where we currently do not compete, which could increase our exposure to patent and other intellectual property claims from competitors and non-practicing entities.

From time to time, we receive notice letters from patent holders alleging that certain of our products and services infringe their patent rights. Some of these have resulted in litigation against us. For example, on March 12, 2012, Yahoo filed a lawsuit against us in the U.S. District Court for the Northern District of California that alleges that a number of our products infringe the claims of ten of Yahoo s patents that Yahoo claims relate to advertising, social networking, privacy, customization, and messaging, and on April 27, 2012, Yahoo added two patents to the la that Yahoo claims relate to advertising. Yahoo is seeking unspecified damages, a damage multiplier for alleged willful infringement, and an injunction. We intend to vigorously defend this lawsuit, and on April 3, 2012, we filed our answer with respect to this complaint and asserted counterclaims that Yahoo s products infringe ten of our patents. This litigation is still in its early stages and the final outcome, including our liability, if any, with respect to Yahoo s claims, is uncertain. If an unfavorable outcome were to occur in this litigation, the impact could be material to our business, financial condition, or results of operations. As is common in intellectual property litigation, Yahoo could in the future assert additional patent or other claims against us in this or in other proceedings. For example, we received a letter dated April 23, 2012 from Yahoo indicating that they believe 16 patents they claim to hold may be relevant to open source technology they allege is being used in our data centers and servers. Yahoo has not threatened or initiated litigation with respect to matters described in this letter but it may do so in the future.

We presently are involved in a number of other lawsuits, and as we face increasing competition and gain an increasingly high profile, including in connection with our initial public offering, we expect the number of patent and other intellectual property claims against us to grow. Defending patent and other intellectual property litigation is costly and can impose a significant burden on management and employees, and there can be no assurances that favorable final outcomes will be obtained in all cases. In addition, plaintiffs may seek, and we may become subject to, preliminary or provisional rulings in the course of any such litigation, including potential preliminary injunctions requiring us to cease some or all of our operations. We may decide to settle such lawsuits and disputes on terms that are unfavorable to us. Similarly, if any litigation to which we are a party is resolved adversely, we may be subject to an unfavorable judgment that may not be reversed upon appeal. The terms of such a settlement or judgment may require us to cease some or all of our operations or pay substantial amounts to the other party. In addition, we may have to seek a license to continue practices found to be in violation of a third party s rights, which may not be available on reasonable terms, or at all, and may significantly increase our operating costs and expenses. As a result, we may also be required to develop alternative non-infringing technology or practices or discontinue the practices. The development of alternative non-infringing technology or practices could require significant effort and expense or may not be feasible. Our business, financial condition, or results of operations could be adversely affected as a result of an unfavorable resolution of the disputes and litigation referred to above.

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We are involved in numerous class action lawsuits and other litigation matters that are expensive and time consuming, and, if resolved adversely, could harm our business, financial condition, or results of operations.

In addition to intellectual property claims, we are also involved in numerous other lawsuits, including putative class action lawsuits brought by users and advertisers, many of which claim statutory damages, and we anticipate that we will continue to be a target for numerous lawsuits in the future. Because we have hundreds of millions of users, the plaintiffs in class action cases filed against us typically claim enormous monetary damages even if the alleged per-user harm is small or non-existent. Any litigation to which we are a party may result in an onerous or unfavorable judgment that may not be reversed upon appeal, or we may decide to settle lawsuits on similarly unfavorable terms. Any such negative outcome could result in payments of substantial monetary damages or fines, or changes to our products or business practices, and accordingly our business, financial condition, or results of operations could be materially and adversely affected. Although the results of lawsuits and claims cannot be predicted with certainty, we do not believe that the final outcome of those matters that we currently face will have a material adverse effect on our business, financial condition, or results of operations. However, defending these claims is costly and can impose a significant burden on management and employees, and we may receive unfavorable preliminary or interim rulings in the course of litigation, which could adversely affect the market price of our Class A common stock. There can be no assurances that a favorable final outcome will be obtained in all cases.

Our CEO has control over key decision making as a result of his control of a majority of our voting stock.

As a result of voting agreements with certain stockholders, together with the shares he holds, Mark Zuckerberg, our founder, Chairman, and CEO, will be able to exercise voting rights with respect to an aggregate of 933,969,202 shares of common stock, which will represent approximately 57.3% of the voting power of our outstanding capital stock following our initial public offering. As a result, Mr. Zuckerberg has the ability to control the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger, consolidation, or sale of all or substantially all of our assets. This concentrated control could delay, defer, or prevent a change of control, merger, consolidation, or sale of all or substantially all of our assets that our other stockholders support, or conversely this concentrated control could result in the consummation of such a transaction that our other stockholders do not support. This concentrated control could also discourage a potential investor from acquiring our Class A common stock due to the limited voting power of such stock relative to the Class B common stock and might harm the market price of our Class A common stock. In addition, Mr. Zuckerberg has the ability to control the management and major strategic investments of our company as a result of his position as our CEO and his ability to control the election or replacement of our directors. In the event of his death, the shares of our capital stock that Mr. Zuckerberg owns will be transferred to the persons or entities that he designates. As a board member and officer, Mr. Zuckerberg owes a fiduciary duty to our stockholders and must act in good faith in a manner he reasonably believes to be in the best interests of our stockholders. As a stockholder, even a controlling stockholder, Mr. Zuckerberg is entitled to vote his shares, and shares over which he has voting control as a result of voting agreements, in his own interests, which may not always be in the interests of our stockholders generally. For a description of these voting agreements, see Description of Capital Stock Voting Agreements.

We anticipate that we will expend substantial funds in connection with the tax liabilities that arise upon the initial settlement of RSUs following our initial public offering and the manner in which we fund that expenditure may have an adverse effect on our financial condition.

We anticipate that we will expend substantial funds to satisfy tax withholding and remittance obligations on dates that are 151 to 181 days after the date of this prospectus, when we will settle a portion of our RSUs granted prior to January 1, 2011 (Pre-2011 RSUs). On the settlement dates, we plan to withhold and remit income taxes at applicable minimum statutory rates based on the then current value of the underlying shares. We currently expect that the average of these withholding tax rates will be approximately 45%. If the price of our common stock at the time of settlement were equal to the midpoint of the price range on the cover page of this prospectus, we estimate that this tax obligation would be approximately $4 billion in the aggregate. The amount of this obligation could be higher or lower, depending on the price of our shares on the RSU settlement date. To settle

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these RSUs, assuming an approximate 45% tax withholding rate, we anticipate that we will net settle the awards by delivering an aggregate of approximately 155 million shares of Class B common stock to RSU holders and withholding an aggregate of approximately 122 million shares of Class B common stock, based on RSUs outstanding as of March 31, 2012 for which the service condition will be satisfied as of the date of settlement. In connection with these net settlements we will withhold and remit the tax liabilities on behalf of the RSU holders in cash to the applicable tax authorities.

To fund the withholding and remittance obligations, we expect to sell equity securities near the initial settlement date in an amount that is substantially equivalent to the number of shares of common stock that we withhold in connection with these net settlements, such that the newly issued shares should not be dilutive. We have an exception in our lock-up agreement with our underwriters that would permit us to raise capital in an underwritten offering to fund these withholding and remittance obligations. However, in the event that we issue equity securities, we cannot assure you that we will be able to successfully match the proceeds to the amount of this tax liability. In addition, any such equity financing could result in a decline in our stock price. If we elect not to fully fund tax withholding and remittance obligations through the issuance of equity or we are unable to complete such an offering due to market conditions or otherwise, we may choose to borrow funds from our credit facilities, use a substantial portion of our existing cash, or rely upon a combination of these alternatives. In the event that we elect to satisfy tax withholding and remittance obligations in whole or in part by drawing on our credit facilities, our interest expense and principal repayment requirements could increase significantly, which could have an adverse effect on our financial results.

We cannot be certain that additional financing will be available on reasonable terms when required, or at all.

From time to time, we may need additional financing, whether in connection with our RSU tax obligation or otherwise. Our ability to obtain additional financing, if and when required, will depend on investor demand, our operating performance, the condition of the capital markets, and other factors. To the extent we draw on our credit facilities to fund the RSU tax obligation, we may need to raise additional funds and we cannot assure you that additional financing will be available to us on favorable terms when required, or at all. If we raise additional funds through the issuance of equity, equity-linked or debt securities, those securities may have rights, preferences, or privileges senior to the rights of our Class A common stock, and our existing stockholders may experience dilution.

Our costs are growing quickly, which could harm our business and profitability.

Providing our products to our users is costly and we expect our expenses to continue to increase in the future as we broaden our user base, as users increase the number of connections and amount of data they share with us, as we develop and implement new product features that require more computing infrastructure, and as we hire additional employees. Historically, our costs have increased each year due to these factors and we expect to continue to incur increasing costs, in particular for employees, servers, storage, power, and data centers, to support our anticipated future growth. We expect to continue to invest in our global infrastructure in order to provide our products rapidly and reliably to all users around the world, including in countries where we do not expect significant short-term monetization. Our expenses may be greater than we anticipate, and our investments to make our business and our technical infrastructure more efficient may not be successful. In addition, we may increase marketing, sales, and other operating expenses in order to grow and expand our operations and to remain competitive. Increases in our costs may adversely affect our business and profitability.

Our business is dependent on our ability to maintain and scale our technical infrastructure, and any significant disruption in our service could damage our reputation, result in a potential loss of users and engagement, and adversely affect our financial results.

Our reputation and ability to attract, retain, and serve our users is dependent upon the reliable performance of Facebook and our underlying technical infrastructure. Our systems may not be adequately designed with the necessary reliability and redundancy to avoid performance delays or outages that could be harmful to our business. If Facebook is unavailable when users attempt to access it, or if it does not load as quickly as they expect, users may not return to our website as often in the future, or at all. As our user base and the amount and types of information shared on Facebook continue to grow, we will need an increasing amount of technical infrastructure, including network capacity, and computing power, to continue to satisfy the needs of our users. It is possible that we may fail to effectively scale and grow our technical infrastructure to accommodate these increased demands. In addition, our business is subject to interruptions, delays, or failures resulting from earthquakes, other natural disasters, terrorism, or other catastrophic events.

A substantial portion of our network infrastructure is provided by third parties. Any disruption or failure in the services we receive from these providers could harm our ability to handle existing or increased traffic and could significantly harm our business. Any financial or other difficulties these providers face may adversely affect our business, and we exercise little control over these providers, which increases our vulnerability to problems with the services they provide.

We recently began to own and build key portions of our technical infrastructure, and, because of our limited experience in this area, we could experience unforeseen difficulties.

In 2011, we began serving our products from data centers owned by Facebook using servers specifically designed for us. We plan to continue to significantly expand the size of our infrastructure, primarily through data centers that we design and own. The infrastructure expansion we are undertaking is complex, and unanticipated delays in the completion of these projects or availability of components may lead to increased project costs, operational inefficiencies, or interruptions in the delivery or degradation of the quality of our products. In addition, there may be issues related to this infrastructure that are not identified during the testing phases of design and implementation, which may only become evident after we have started to fully utilize the underlying equipment, that could further degrade the user experience or increase our costs.

Our software is highly technical, and if it contains undetected errors, our business could be adversely affected.

Our products incorporate software that is highly technical and complex. Our software has contained, and may now or in the future contain, undetected errors, bugs, or vulnerabilities. Some errors in our software code may only be discovered after the code has been released. Any errors, bugs, or vulnerabilities discovered in our code after release could result in damage to our reputation, loss of users, loss of revenue, or liability for damages, any of which could adversely affect our business and financial results.

Certain of our user metrics are subject to inherent challenges in measurement, and real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business.

The numbers of our MAUs and DAUs and average revenue per user (ARPU) are calculated using internal company data. 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 have multiple Facebook accounts in violation of our terms of service, despite our efforts to detect and suppress such behavior. We estimate that false or duplicate accounts may have represented approximately 5-6% of our MAUs as of December 31, 2011. However, this estimate is 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 false or duplicate accounts may not accurately represent the actual number of such accounts. Our metrics are 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 and 2010 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. In addition, our estimates for revenue by user location are also affected by these factors. If advertisers, developers, or investors do not perceive our user metrics to be accurate representations of our user base, or if we discover material inaccuracies in our user metrics, our reputation may be harmed and advertisers and developers may be less willing to allocate their budgets or resources to Facebook, which could negatively affect our business and financial results.

We cannot assure you that we will effectively manage our growth.

Our employee headcount and the scope and complexity of our business have increased significantly, with the number of full-time employees increasing from 2,431 as of March 31, 2011, to 3,539 as of March 31, 2012, and we expect headcount growth to continue for the foreseeable future. The growth and expansion of our business and products create significant challenges for our management, operational, and financial resources, including managing multiple relations with users, advertisers, Platform developers, and other third parties. In the event of continued growth of our operations or in the number of our third-party relationships, our information technology systems or our internal controls and procedures may not be adequate to support our operations. In addition, some members of our management do not have significant experience managing a large global business operation, so our management may not be able to manage such growth effectively. To effectively manage our growth, we must continue to improve our operational, financial, and management processes and systems and to effectively expand, train, and manage our employee base. As our organization continues to grow, and we are required to implement more complex organizational management structures, we may find it increasingly difficult to maintain the benefits of our corporate culture, including our ability to quickly develop and launch new and innovative products. This could negatively affect our business performance.

The loss of one or more of our key personnel, or our failure to attract and retain other highly qualified personnel in the future, could harm our business.

We currently depend on the continued services and performance of our key personnel, including Mark Zuckerberg and Sheryl K. Sandberg. Although we have entered into employment agreements with Mr. Zuckerberg and Ms. Sandberg, the agreements have no specific duration and constitute at-will employment. In addition, many of our key technologies and systems are custom-made for our business by our personnel. The loss of key personnel, including members of management as well as key engineering, product development, marketing, and sales personnel, could disrupt our operations and have an adverse effect on our business.

As we continue to grow, we cannot guarantee we will continue to attract the personnel we need to maintain our competitive position. In particular, we intend to hire a significant number of engineering and sales personnel in 2012, and we expect to face significant competition from other companies in hiring such personnel, particularly in the San Francisco Bay Area. As we mature, the incentives to attract, retain, and motivate employees provided by our equity awards or by future arrangements, such as through cash bonuses, may not be as effective as in the past. Additionally, we have a number of current employees whose equity ownership in our company gives them a substantial amount of personal wealth. Likewise, we have a number of current employees whose equity awards are fully vested and shortly after the completion of our initial public offering will be entitled to receive substantial amounts of our capital stock. As a result, it may be difficult for us to continue to retain and motivate these employees, and this wealth could affect their decisions about whether or not they continue to work for us. If we do not succeed in attracting, hiring, and integrating excellent personnel, or retaining and motivating existing personnel, we may be unable to grow effectively.

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We may incur liability as a result of information retrieved from or transmitted over the Internet or posted to Facebook and claims related to our products.

We have faced, currently face, and will continue to face claims relating to information that is published or made available on Facebook. In particular, the nature of our business exposes us to claims related to defamation, intellectual property rights, rights of publicity and privacy, and personal injury torts. This risk is enhanced in certain jurisdictions outside the United States where our protection from liability for third-party actions may be unclear and where we may be less protected under local laws than we are in the United States. We could incur significant costs investigating and defending such claims and, if we are found liable, significant damages. If any of these events occur, our business and financial results could be adversely affected.

Computer malware, viruses, hacking and phishing attacks, and spamming could harm our business and results of operations.

Computer malware, viruses, and computer hacking and phishing attacks have become more prevalent in our industry, have occurred on our systems in the past, and may occur on our systems in the future. Because of our prominence, we believe that we are a particularly attractive target for such attacks. 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.

In addition, spammers attempt to use our products to send targeted and untargeted spam messages to users, which may embarrass or annoy users and make Facebook less user-friendly. We cannot be certain that the technologies and employees that we have to attempt to defeat spamming attacks will be able to eliminate all spam messages from being sent on our platform. As a result of spamming activities, our users may use Facebook less or stop using our products altogether.

Payment transactions on the Facebook Platform may subject us to additional regulatory requirements and other risks that could be costly and difficult to comply with or that could harm our business.

Our users can use the Facebook Platform to purchase virtual and digital goods from our Platform developers using our Payments infrastructure. Depending on how our Payments product evolves, we may be subject to a variety of laws and regulations in the United States, Europe, and elsewhere, including those governing money transmission, gift cards and other prepaid access instruments, electronic funds transfers, anti-money laundering, counter-terrorist financing, gambling, banking and lending, and import and export restrictions. In some jurisdictions, the application or interpretation of these laws and regulations is not clear. To increase flexibility in how our use of Payments may evolve and to mitigate regulatory uncertainty, we have applied for certain money transmitter licenses and expect to apply for additional money transmitter licenses in the United States, which will generally require us to demonstrate compliance with many domestic laws in these areas. Our efforts to comply with these laws and regulations could be costly and result in diversion of management time and effort and may still not guarantee compliance. In the event that we are found to be in violation of any such legal or regulatory requirements, we may be subject to monetary fines or other penalties such as a cease and desist order, or we may be required to make product changes, any of which could have an adverse effect on our business and financial results.

In addition, we may be subject to a variety of additional risks as a result of Payments on the Facebook Platform, including:

increased costs and diversion of management time and effort and other resources to deal with bad transactions or customer disputes;

potential fraudulent or otherwise illegal activity by users, developers, employees, or third parties;

restrictions on the investment of consumer funds used to transact Payments; and

additional disclosure and reporting requirements.

We plan to continue expanding our operations abroad where we have limited operating experience and may be subject to increased business and economic risks that could affect our financial results.

We plan to continue the international expansion of our business operations and the translation of our products. We currently make Facebook available in more than 70 different languages, and we have offices or data centers in more than 20 different countries. We may enter new international markets where we have limited or no experience in marketing, selling, and deploying our products. For example, we continue to evaluate entering China. However, this market has substantial legal and regulatory complexities that have prevented our entry into China to date. If we fail to deploy or manage our operations in international markets successfully, our business may suffer. In addition, we are subject to a variety of risks inherent in doing business internationally, including:

- political, social, or economic instability;
- risks related to the legal and regulatory environment in foreign jurisdictions, including with respect to privacy, and unexpected changes in laws, regulatory requirements, and enforcement;
- potential damage to our brand and reputation due to compliance with local laws, including potential censorship or requirements to provide user information to local authorities;
- fluctuations in currency exchange rates;
- higher levels of credit risk and payment fraud;
- enhanced difficulties of integrating any foreign acquisitions;
- burdens of complying with a variety of foreign laws;
- reduced protection for intellectual property rights in some countries;
- difficulties in staffing and managing global operations and the increased travel, infrastructure, and legal compliance costs associated with multiple international locations;
- compliance with the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, and similar laws in other jurisdictions; and
- compliance with statutory equity requirements and management of tax consequences.

If we are unable to expand internationally and manage the complexity of our global operations successfully, our financial results could be adversely affected.

We plan to continue to make acquisitions, which could require significant management attention, disrupt our business, result in dilution to our stockholders, and adversely affect our financial results.

As part of our business strategy, we have made and intend to make acquisitions to add specialized employees, complementary companies, products, or technologies. For example, in April 2012, we entered into an agreement to acquire Instagram, Inc., the closing of which is subject to closing conditions and regulatory clearance. Our ability to acquire and integrate larger or more complex companies, products, or technologies in a successful manner is unproven. In the future, we may not be able to find other suitable acquisition candidates, and we may not be able to complete acquisitions on favorable terms, if at all. Our previous and future acquisitions may not achieve our goals, and any future acquisitions we complete could be viewed negatively by users, developers, advertisers, or investors. In addition, if we fail to successfully close or integrate any acquisitions, or integrate the products or technologies associated with such acquisitions into our company, our revenue and operating results could be adversely affected. Any integration process may require significant time and resources, and we may not be able to manage the process successfully. We may not successfully evaluate or utilize the acquired products, technology, or personnel, or accurately forecast the financial impact of an acquisition transaction, including accounting charges. We may have to pay cash, incur debt, or issue equity securities to pay for any such acquisition, any of which could adversely affect our financial results. The sale of equity or issuance of debt to finance any such acquisitions could result in dilution to our stockholders. The incurrence of indebtedness would result in increased fixed obligations and could also include covenants or other restrictions that would impede our ability to manage our operations.

If we default on our leasing and credit obligations, our operations may be interrupted and our business and financial results could be adversely affected.

We finance a significant portion of our expenditures through leasing arrangements, some of which are not required to be reflected on our balance sheet, and we may enter into additional similar arrangements in the future. In particular, we have used these types of arrangements to finance some of our equipment and data centers. In addition, we have credit facilities that we may draw upon to finance our operations or other corporate purposes, such as funding our tax withholding and remittance obligations in connection with the settlement of RSUs. If we default on these leasing and credit obligations, our leasing partners and lenders may, among other things:

- require repayment of any outstanding lease obligations or amounts drawn on our credit facilities;
- terminate our leasing arrangements and credit facilities;
- terminate our access to the leased data centers we utilize;
- stop delivery of ordered equipment;
- sell or require us to return our leased equipment; or
- require us to pay significant damages.

If some or all of these events were to occur, our operations may be interrupted and our ability to fund our operations or obligations, as well as our business, financial results, and financial condition, could be adversely affected.

We may have exposure to greater than anticipated tax liabilities.

Our income tax obligations are based on our corporate operating structure and intercompany arrangements, including the manner in which we develop, value, and use our intellectual property and the valuations of our intercompany transactions. The tax laws applicable to our international business activities, including the laws of the United States and other jurisdictions, are subject to interpretation. The taxing authorities of the jurisdictions in which we operate may challenge our methodologies for valuing developed technology or intercompany arrangements, which could increase our worldwide effective tax rate and harm our financial position and results of operations. In addition, our future income taxes could be adversely affected by earnings being lower than anticipated in jurisdictions that have lower statutory tax rates and higher than anticipated in jurisdictions that have higher statutory tax rates, by changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws, regulations, or accounting principles. We are subject to regular review and audit by both U.S. federal and state and foreign tax authorities. Any adverse outcome of such a review or audit could have a negative effect on our financial position and results of operations. In addition, the determination of our worldwide provision for income taxes and other tax liabilities requires significant judgment by management, and there are many transactions where the ultimate tax determination is uncertain. Although we believe that our estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made.

The enactment of legislation implementing changes in the U.S. taxation of international business activities or the adoption of other tax reform policies could materially affect our financial position and results of operations.

The current administration has made public statements indicating that it has made international tax reform a priority, and key members of the U.S. Congress have conducted hearings and proposed a wide variety of potential changes. Certain changes to U.S. tax laws, including limitations on the ability to defer U.S. taxation on earnings outside of the United States until those earnings are repatriated to the United States, could affect the tax treatment of our foreign earnings, as well as cash and cash equivalent balances we currently maintain outside of the United States. Due to the large and expanding scale of our international business activities, any changes in the U.S. taxation of such activities may increase our worldwide effective tax rate and harm our financial position and results of operations.

Risks Related to Our Initial Public Offering and Ownership of Our Class A Common Stock

The market price of our Class A common stock may be volatile or may decline regardless of our operating performance, and you may not be able to resell your shares at or above the initial public offering price.

The initial public offering price for our Class A common stock will be determined through negotiations between the underwriters and us and may vary from the market price of our Class A common stock following our initial public offering. If you purchase shares of our Class A common stock in our initial public offering, you may not be able to resell those shares at or above the initial public offering price. We cannot assure you that the initial public offering price of our Class A common stock, or the market price following our initial public offering, will equal or exceed prices in privately negotiated transactions of our shares that have occurred from time to time prior to our initial public offering. The market price of our Class A common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- actual or anticipated fluctuations in our revenue and other operating results;

- the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;

- actions of securities analysts who initiate or maintain coverage of us, changes in financial estimates by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;

- additional shares of our common stock being sold into the market by us or our existing stockholders or the anticipation of such sales, including if we issue shares to satisfy RSU-related tax obligations or if existing stockholders sell shares into the market when applicable lock-up periods end;

- announcements by us or our competitors of significant products or features, technical innovations, acquisitions, strategic partnerships, joint ventures, or capital commitments;

- announcements by us or estimates by third parties of actual or anticipated changes in the size of our user base or the level of user engagement;

- changes in operating performance and stock market valuations of technology companies in our industry, including our Platform developers and competitors;

- price and volume fluctuations in the overall stock market, including as a result of trends in the economy as a whole;

- lawsuits threatened or filed against us;

- developments in new legislation and pending lawsuits or regulatory actions, including interim or final rulings by judicial or regulatory bodies; and

- other events or factors, including those resulting from war or incidents of terrorism, or responses to these events.

In addition, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many technology companies. Stock prices of many technology companies have fluctuated in a manner unrelated or disproportionate to the operating performance of

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those companies. In the past, stockholders have filed securities class action litigation following periods of market volatility. If we were to become involved in securities litigation, it could subject us to substantial costs, divert resources and the attention of management from our business, and adversely affect our business.

Substantial blocks of our total outstanding shares may be sold into the market when lock-up or market standoff periods end. If there are substantial sales of shares of our common stock, the price of our Class A common stock could decline.

The price of our Class A common stock could decline if there are substantial sales of our common stock, particularly sales by our directors, executive officers, employees, and significant stockholders, or when there is a large number of shares of our common stock available for sale. After our initial public offering, we will have outstanding 598,396,119 shares of our Class A common stock and 1,539,688,918 shares of our Class B common stock, based on the number of shares outstanding as of March 31, 2012. This includes 337,415,352 shares that we and the selling stockholders are selling in our initial public offering, which shares may be resold in the public market immediately following our initial public offering, and assumes no additional exercises of outstanding options (other than the partial exercise of an outstanding stock option to purchase 120,000,000 shares of Class B common stock held by Mr. Zuckerberg, resulting in the issuance of 60,000,000 shares of our Class B common stock as described elsewhere in this prospectus). Shares of our Class B common stock are convertible into an equivalent number of shares of our Class A common stock and generally convert into shares of our Class A common stock upon transfer. The 260,980,767 shares of our Class A common stock and 1,539,688,918 shares of our Class B common stock that are not offered and sold in our initial public offering as well as the shares underlying outstanding RSUs and shares subject to employee stock options will be eligible for sale in the public market in the near future as set forth below.

Date Available for Sale into Public Market	Number of Shares of Common Stock
91 days after the date of this prospectus	171,797,666 shares held by the selling stockholders other than Mr. Zuckerberg
151 to 180 days after the date of this prospectus	approximately 137 million shares underlying net- settled Pre-2011 RSUs held by our directors and then current employees and approximately 55 million outstanding shares and approximately 55 million shares subject to stock options held by then current employees other than Mr. Zuckerberg
181 days after the date of this prospectus	1,338,453,216 outstanding shares and approximately 18 million shares underlying other net-settled Pre-2011 RSUs
211 days after the date of this prospectus	141,776,569 shares held by the selling stockholders other than Mr. Zuckerberg
366 days after the date of this prospectus	93,815,940 shares held by Mail.ru Group Limited and DST Global Limited and their respective affiliates

In addition, as of March 31, 2012, options to purchase 49,390,599 shares of Class B common stock held by former employees were outstanding and fully vested and the Class B common stock underlying such options will be eligible for sale 181 days after the date of this prospectus. Furthermore, following our initial public offering, the remaining 60,000,000 shares subject to the partially exercised stock option held by Mr. Zuckerberg will be eligible for sale 181 days after the date of this prospectus. We expect an additional approximately 2 million shares of Class B common stock to be delivered upon the net settlement of RSUs between the date of the initial settlement of RSUs described above and December 31, 2012 will be eligible for sale in the public market immediately following settlement.

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After our initial public offering, certain holders of our Class A common stock and Class B common stock will 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 ourselves or our stockholders. All of these shares are subject to market standoff or lock-up agreements restricting their sale for specified periods of time after the date of this prospectus. We also intend to register shares of common stock that we have issued and may issue under our employee equity incentive plans. Once we register these shares, they will be able to be sold freely in the public market upon issuance, subject to existing market standoff or lock-up agreements.

Morgan Stanley & Co. LLC may, with our prior written consent, permit our executive officers, our directors, and the selling stockholders to sell shares prior to the expiration of the restrictive provisions contained in the lock-up agreements with the underwriters. See Underwriting for a more complete description of the lock-up agreements that we and our directors, executive officers, and selling stockholders have entered into with the underwriters. In addition, we may, in our sole discretion, permit our employees and current stockholders who are subject to market standoff agreements or arrangements with us and who are not subject to a lock-up agreement with the underwriters to sell shares prior to the expiration of the restrictive provisions contained in those market standoff agreements or arrangements.

The market price of the shares of our Class A common stock could decline as a result of the sale of a substantial number of our shares of common stock in the public market or the perception in the market that the holders of a large number of shares intend to sell their shares.

In making your investment decision, you should not rely on information in public media that is published by third parties. You should rely only on statements made in this prospectus in determining whether to purchase our shares.

You should carefully evaluate all of the information in this prospectus. We have in the past received, and may continue to receive, a high degree of media coverage, including coverage that is not directly attributable to statements made by our officers and employees, that incorrectly reports on statements made by our officers or employees, or that is misleading as a result of omitting information provided by us, our officers, or employees. You should rely only on the information contained in this prospectus in determining whether to purchase our shares of Class A common stock.

We have broad discretion in the use of the net proceeds from our initial public offering and may not use them effectively.

We cannot specify with any certainty the particular uses of the net proceeds that we will receive from our initial public offering. Our management will have broad discretion in the application of the net proceeds, including working capital, possible acquisitions, and other general corporate purposes, and we may spend or invest these proceeds in a way with which our stockholders disagree. The failure by our management to apply these funds effectively could harm our business and financial condition. Pending their use, we may invest the net proceeds from our initial public offering in a manner that does not produce income or that loses value.

If securities or industry analysts publish inaccurate or unfavorable research about our business, our stock price could decline.

The trading market for our Class A common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our Class A common stock or publish inaccurate or unfavorable research about our business, our Class A common stock price would likely decline.

We do not intend to pay dividends for the foreseeable future.

We have never declared or paid cash dividends on our capital stock. We currently intend to retain any future earnings to finance the operation and expansion of our business, and we do not expect to declare or pay any

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dividends in the foreseeable future. As a result, you may only receive a return on your investment in our Class A common stock if the market price of our Class A common stock increases. In addition, our credit facilities contain restrictions on our ability to pay dividends.

If we are unable to implement and maintain effective internal control over financial reporting in the future, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our Class A common stock may be negatively affected.

As a public company, we will be required to maintain internal controls over financial reporting and to report any material weaknesses in such internal controls. In addition, beginning with our 2013 Annual Report on Form 10-K to be filed in 2014, we will be required to furnish a report by management on the effectiveness of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act. We are in the process of designing, implementing, and testing the internal control over financial reporting required to comply with this obligation, which process is time consuming, costly, and complicated. If we identify material weaknesses in our internal control over financial reporting, if we are unable to comply with the requirements of Section 404 in a timely manner or assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our Class A common stock could be negatively affected, and we could become subject to investigations by the stock exchange on which our securities are listed, the Securities and Exchange Commission, or other regulatory authorities, which could require additional financial and management resources.

The requirements of being a public company may strain our resources and divert management s attention.

As a public company, we will be subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (Exchange Act), the Sarbanes-Oxley Act, the Dodd-Frank Act, the listing requirements of the NASDAQ Global Select Market, and other applicable securities rules and regulations. Compliance with these rules and regulations will increase our legal and financial compliance costs, make some activities more difficult, time-consuming, or costly, and increase demand on our systems and resources. The Exchange Act requires, among other things, that we file annual, quarterly, and current reports with respect to our business and operating results.

As a result of disclosure of information in this prospectus and in filings required of a public company, our business and financial condition will become more visible, which we believe may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business and operating results could be harmed, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and harm our business and operating results.

If you purchase shares of our Class A common stock in our initial public offering, you will experience substantial and immediate dilution.

If you purchase shares of our Class A common stock in our initial public offering, you will experience substantial and immediate dilution in the pro forma net tangible book value per share of $26.35 per share as of March 31, 2012, based on an assumed initial public offering price of our Class A common stock of $31.50 per share, the midpoint of the price range on the cover page of this prospectus, because the price that you pay will be substantially greater than the pro forma net tangible book value per share of the Class A common stock that you acquire. This dilution is due in large part to the fact that our earlier investors paid substantially less than the initial public offering price when they purchased their shares of our capital stock. You will experience additional dilution upon exercise of options to purchase common stock under our equity incentive plans, upon vesting of

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RSUs, if we issue restricted stock to our employees under our equity incentive plans, or if we otherwise issue additional shares of our common stock. For more information, see Dilution.

The dual class structure of our common stock and the voting agreements among certain stockholders have the effect of concentrating voting control with our CEO, and also with employees and directors and their affiliates; this will limit or preclude your ability to influence corporate matters.

Our Class B common stock has ten votes per share, and our Class A common stock, which is the stock we are offering in our initial public offering, has one vote per share. Stockholders who hold shares of Class B common stock, including our executive officers, employees, and directors and their affiliates, will together hold approximately 96.3% of the voting power of our outstanding capital stock following our initial public offering. Because of the ten-to-one voting ratio between our Class B 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 so long as the shares of Class B common stock represent at least 9.1% of all outstanding shares of our Class A and Class B common stock. This concentrated control will limit or preclude your ability to influence corporate matters for the foreseeable future.

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 or charitable 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, for example, Mr. Zuckerberg retains a significant portion of his holdings of Class B common stock for an extended period of time, he could, in the future, continue to control a majority of the combined voting power of our Class A common stock and Class B common stock. For a description of the dual class structure, see Description of Capital Stock Anti-Takeover Provisions.

We have elected to take advantage of the controlled company exemption to the corporate governance rules for NASDAQ-listed companies, which could make our Class A common stock less attractive to some investors or otherwise harm our stock price.

Because we qualify as a controlled company under the corporate governance rules for NASDAQ-listed companies, we are not required to have a majority of our board of directors be independent, nor are we required to have a compensation committee or an independent nominating function. In light of our status as a controlled company, our board of directors has determined not to have an independent nominating function and has chosen to have the full board of directors be directly responsible for nominating members of our board, and in the future we could elect not to have a majority of our board of directors be independent or not to have a compensation committee. Accordingly, should the interests of our controlling stockholder differ from those of other stockholders, the other stockholders may not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance rules for NASDAQ-listed companies. Our status as a controlled company could make our Class A common stock less attractive to some investors or otherwise harm our stock price.

Delaware law and provisions in our restated certificate of incorporation and bylaws that will be in effect at the closing of our initial public offering could make a merger, tender offer, or proxy contest difficult, thereby depressing the trading price of our Class A common stock.

Following the closing of our initial public offering, our status as a Delaware corporation and the anti-takeover provisions of the Delaware General Corporation Law may discourage, delay, or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the person becomes an interested stockholder, even if a change of control would be beneficial to our existing stockholders. In addition, our restated certificate of incorporation and bylaws that will be in effect at

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the closing of our initial public offering will contain provisions that may make the acquisition of our company more difficult, including the following:

- until the first date on which the outstanding shares of our Class B common stock represent less than 35% of the combined voting power of our common stock, any transaction that would result in a change in control of our company will require the approval of a majority of our outstanding Class B common stock voting as a separate class;

- we have a dual class common stock structure, which provides Mr. Zuckerberg with the ability to control the outcome of matters requiring stockholder approval, even if he owns significantly less than a majority of the shares of our outstanding Class A and Class B common stock;

- when the outstanding shares of our Class B common stock represent less than a majority of the combined voting power of common stock, certain amendments to our restated certificate of incorporation or bylaws will require the approval of two-thirds of the combined vote of our then-outstanding shares of Class A and Class B common stock;

- when the outstanding shares of our Class B common stock represent less than a majority of the combined voting power of our common stock, vacancies on our board of directors will be able to be filled only by our board of directors and not by stockholders;

- when the outstanding shares of our Class B common stock represent less than a majority of the combined voting power of our common stock, our board of directors will be classified into three classes of directors with staggered three-year terms and directors will only be able to be removed from office for cause;

- when the outstanding shares of our Class B common stock represent less than a majority of the combined voting power of our common stock, our stockholders will only be able to take action at a meeting of stockholders and not by written consent;

- only our chairman, our chief executive officer, our president, or a majority of our board of directors will be authorized to call a special meeting of stockholders;

- advance notice procedures will apply for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders;

- our restated certificate of incorporation will authorize undesignated preferred stock, the terms of which may be established, and shares of which may be issued, without stockholder approval; and

- certain litigation against us can only be brought in Delaware.

For information regarding these and other provisions, see Description of Capital Stock Anti-Takeover Provisions.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. All statements contained in this prospectus 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, 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 the Risk Factors section. 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 prospectus may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. The events and circumstances reflected in the forward-looking statements may not be achieved or occur. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. We are under no duty to update any of these forward-looking statements after the date of this prospectus or to conform these statements to actual results or revised expectations.

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INDUSTRY DATA AND USER METRICS

This prospectus contains estimates and information concerning our industry, including market position, market size, and growth rates of the markets in which we participate, that are based on industry publications and reports. This information involves a number of assumptions and limitations, and you are cautioned not to give undue weight to these estimates. We have not independently verified the accuracy or completeness of the data contained in these industry publications and reports. The industry in which we operate is subject to a high degree of uncertainty and risk due to variety of factors, including those described in the Risk Factors section. These and other factors could cause results to differ materially from those expressed in these publications and reports.

The numbers of monthly active users (MAUs) and daily active users (DAUs) and average revenue per user (ARPU) presented in this prospectus are based on internal company data and we use certain of these numbers in managing our business. These numbers are based on what we believe to be reasonable estimates of our user base for the applicable period of measurement, and we take steps to improve their accuracy, such as eliminating known false or duplicate accounts. There are inherent challenges in measuring usage across large online and mobile populations around the world. For example, there may be individuals who have multiple Facebook accounts in violation of our terms of service, despite our efforts to detect and suppress such behavior. We estimate that false or duplicate accounts may have represented approximately 5-6% of our MAUs as of December 31, 2011. However, this estimate is 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 false or duplicate accounts may not accurately represent the actual number of such accounts. Our metrics are 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 and 2010 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. As such, the calculations of DAUs as a percentage of MAUs presented in this prospectus may be affected by this activity. 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. In addition, our estimates for revenue by user location 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 MAU and DAU estimates will differ from estimates published by third parties due to differences in methodology. For example, some third parties do not count mobile users.

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USE OF PROCEEDS

We estimate that our net proceeds from the sale of the Class A common stock that we are offering will be approximately $5.6 billion, or approximately $5.8 billion if the underwriters exercise in full their right to purchase additional shares to cover over-allotments, assuming an initial public offering price of $31.50 per share, which is the midpoint of the price range on the cover page of this prospectus, and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. A $1.00 increase (decrease) in the assumed initial public offering price of $31.50 per share would increase (decrease) the net proceeds to us from our initial public offering by $178 million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same, after deducting estimated underwriting discounts and commissions.

The principal purposes of our initial public offering are to create a public market for our Class A common stock and thereby enable future access to the public equity markets by us and our employees, obtain additional capital, and facilitate an orderly distribution of shares for the selling stockholders. We intend to use the net proceeds to us from our initial public offering for working capital and other general corporate purposes; however, we do not currently have any specific uses of the net proceeds planned. We may use a portion of the net proceeds to us to satisfy a portion of the anticipated tax withholding and remittance obligations related to the initial settlement of our outstanding RSUs. Additionally, we may use a portion of the proceeds to us for acquisitions of complementary businesses, technologies, or other assets. However, we have no commitments to use the proceeds from this offering for any such acquisitions or investments at this time.

Pending other uses, we intend to invest the proceeds to us in investment-grade, interest-bearing securities such as money market funds, certificates of deposit, or direct or guaranteed obligations of the U.S. government, or hold as cash. We cannot predict whether the proceeds invested will yield a favorable return. Our management will have broad discretion in the application of the net proceeds we receive from our initial public offering, and investors will be relying on the judgment of our management regarding the application of the net proceeds.

We will not receive any proceeds from the sale of shares of Class A common stock by the selling stockholders. Mark Zuckerberg, our founder, Chairman, and CEO, will offer and sell 30,200,000 shares in our initial public offering. We expect that the substantial majority of the net proceeds Mr. Zuckerberg will receive upon such sale will be used to satisfy taxes that he will incur in connection with the partial exercise of an outstanding stock option.

DIVIDEND POLICY

We have never declared or paid cash dividends on our capital stock. We currently intend to retain any future earnings for use in the operation of our business and do not intend to declare or pay any cash dividends in the foreseeable future. Any further determination to pay dividends on our capital stock will be at the discretion of our board of directors, subject to applicable laws, and will depend on our financial condition, results of operations, capital requirements, general business conditions, and other factors that our board of directors considers relevant. In addition, the terms of our credit facilities contain restrictions on our ability to pay dividends.

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CAPITALIZATION

The following table sets forth our cash, cash equivalents, and marketable securities and capitalization as of March 31, 2012:

- on an actual basis;

- on a pro forma basis to give effect to (i) the automatic conversion of all of our outstanding shares convertible preferred stock into Class B common stock, (ii) the amendment and restatement of our certificate of incorporation in connection with our initial public offering, and (iii) a share-based compensation expense of approximately $640 million, net of income taxes, associated with restricted stock units (RSUs) granted prior to January 1, 2011 (Pre-2011 RSUs) for which the service condition was satisfied as of March 31, 2012, and which we expect to record upon completion of our initial public offering, as described in footnote (1) below; and

- on a pro forma as adjusted basis to give further effect to (i) the issuance and sale by us of 180,000,000 shares of Class A common stock in our initial public offering, and the receipt of the net proceeds from our sale of these shares at an assumed initial public offering price of the Class A common stock of $31.50 per share, the midpoint of the price range on the cover page of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, (ii) the partial exercise by Mark Zuckerberg, our founder, Chairman, and CEO, of an outstanding stock option, resulting in the issuance of 60,000,000 shares of our Class B common stock, (iii) the automatic conversion of 121,788,489 shares of our Class B common stock held by the selling stockholders into an equivalent number of shares of our Class A common stock upon their sale by the selling stockholders in our initial public offering, and (iv) the conversion by certain of our existing stockholders of an aggregate of 179,058,237 shares of our Class B common stock into an equivalent number of shares of our Class A common stock in connection with our initial public offering.

The pro forma and pro forma as adjusted information below is illustrative only, and cash, cash equivalents, and marketable securities, additional paid-in capital, retained earnings, total stockholders equity, and total capitalization following the completion of our initial public offering will be adjusted based on the actual initial public offering price and other terms of our initial public offering determined at pricing. You should read this table in conjunction with the sections entitled Management s Discussion and Analysis of Financial Condition and Results of Operations and Description of Capital Stock and our consolidated financial statements and related notes included elsewhere in this prospectus.

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	As of March 31, 2012		
	Actual	Pro Forma(1)	Pro Forma As Adjusted(2)(3)
	(in millions, except share and per share data)		
Cash, cash equivalents, and marketable securities	$ 3,910	$ 3,910	$ 9,511
Stockholders equity:			
Convertible preferred stock, $0.000006 par value; 569,001,400 shares authorized, 543,216,895 shares issued and outstanding actual; no shares authorized, issued and outstanding, pro forma and pro forma as adjusted	$ 615	$	$
Preferred stock, $0.000006 par value; no shares authorized, issued and outstanding, actual; 100,000,000 shares authorized, no shares issued and outstanding, pro forma and pro forma as adjusted			
Class A common stock, $0.000006 par value; 4,141,000,000 shares authorized, 117,549,393 shares issued and outstanding, actual; 5,000,000,000 shares authorized, 117,549,393 shares issued and outstanding, pro forma; 5,000,000,000 shares authorized, 598,396,119 shares issued and outstanding, pro forma as adjusted			
Class B common stock, $0.000006 par value; 4,141,000,000 shares authorized, 1,235,134,201 shares issued and outstanding, actual; 4,141,000,000 shares authorized, 1,780,535,644 shares issued and outstanding, pro forma; 4,141,000,000 shares authorized, 1,539,688,918 shares issued and outstanding, pro forma as adjusted			
Additional paid-in capital	2,853	4,433	10,034
Accumulated other comprehensive loss	(7)	(7)	(7)
Retained earnings	1,811	1,171	1,171
Total stockholders equity	5,272	5,597	11,198
Total capitalization	$ 5,272	$ 5,597	$ 11,198

(1) The pro forma data as of March 31, 2012 presents our cash, cash equivalents, and marketable securities, total stockholders equity, and total capitalization, and gives effect to a share-based compensation expense of approximately $965 million associated with Pre-2011 RSUs, for which the service condition was completed as of March 31, 2012 and which we expect to record upon completion of our initial public offering, as further described in Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Share-based Compensation. The pro forma adjustment related to share-based compensation expense of approximately $965 million has been reflected as an increase to additional paid-in capital and the associated tax effect of $325 million has been netted against this charge, resulting in a net reduction of $640 million to retained earnings. The income tax effects have been reflected as an increase to deferred tax assets included in prepaid expenses and other current assets, to reflect the anticipated future tax benefits upon settlement of these RSUs. We estimate that an aggregate of approximately 277 million shares underlying Pre-2011 RSUs outstanding as of March 31, 2012 will vest and settle on dates that are 151 to 181 days following our initial public offering, resulting in the net issuance of an aggregate of approximately 155 million shares to the holders. These shares have not been included in our pro forma or pro forma as adjusted shares outstanding.

(2) A $1.00 increase (decrease) in the assumed initial public offering price of $31.50 per share would increase (decrease) each of cash, cash equivalents, and marketable securities, additional paid-in capital, total stockholders equity, and total capitalization by $178 million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same, and after deducting the estimated underwriting discounts and commissions. If the underwriters option to purchase additional shares to cover over-allotments is exercised in full, the pro forma as adjusted amount of each of cash, cash equivalents, and marketable securities, additional paid-in capital, total stockholders equity, and total capitalization would increase by approximately $188 million, after deducting estimated underwriting discounts and commissions, and we would have 644,455,091 shares of our Class A common stock and 1,499,659,934 shares of our Class B common stock issued and outstanding, pro forma as adjusted.

(3) The pro forma as adjusted information discussed above is illustrative only and will be adjusted based on the actual initial public offering price and other terms of our initial public offering determined at pricing.

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The table above excludes the following shares:

- 116,756,442 shares of Class B common stock issuable upon the exercise of options outstanding as of March 31, 2012 under our 2005 Stock Plan, with a weighted-average exercise price of approximately $0.94 per share;

- 60,000,000 shares of Class B common stock issuable upon the exercise of the remaining portion of an option held by Mr. Zuckerberg, with an exercise price of $0.06 per share;

- 378,429,048 shares of Class B common stock subject to RSUs outstanding as of March 31, 2012 under our 2005 Stock Plan;

- 22,999,412 shares of common stock issuable upon completion of our acquisition of Instagram, Inc.;

- 25,257,815 shares of Class B common stock subject to RSUs granted under our 2005 Stock Plan and 40,000 shares of Class A common stock issued between April 1, 2012 and May 3, 2012; and

- 77,466,293 shares of our common stock reserved for future issuance under our equity compensation plans, consisting of 25,000,000 shares of Class A common stock reserved for issuance under our 2012 Equity Incentive Plan, and 52,466,293 shares of Class B common stock reserved as of March 31, 2012 for issuance under our 2005 Stock Plan (which reserve includes the 25,257,815 shares of Class B common stock subject to RSUs granted after March 31, 2012). On the date of this prospectus, any remaining shares available for issuance under our 2005 Stock Plan will be added to the shares reserved under our 2012 Equity Incentive Plan and we will cease granting awards under the 2005 Stock Plan. Our 2012 Equity Incentive Plan also provides for automatic annual increases in the number of shares reserved thereunder and for increases based on forfeited or withheld shares and other events as more fully described in Executive Compensation Employee Benefit Plans.

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DILUTION

If you invest in our Class A common stock, your interest will be diluted to the extent of the difference between the initial public offering price per share of our Class A common stock and the pro forma as adjusted net tangible book value per share of our Class A common stock immediately after our initial public offering.

Our pro forma net tangible book value as of March 31, 2012 was $5.4 billion, or $2.85 per share of common stock. Our pro forma net tangible book value per share represents the amount of our total tangible assets reduced by the amount of our total liabilities and divided by the total number of shares of our common stock outstanding as of March 31, 2012, after giving effect to the automatic conversion of all outstanding shares of our convertible preferred stock into Class B common stock in connection with our initial public offering.

After giving effect to (i) our sale in our initial public offering of 180,000,000 shares of Class A common stock at an assumed initial public offering price of the Class A common stock of $31.50 per share, the midpoint of the price range on the cover page of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us and (ii) the partial exercise by Mark Zuckerberg, our founder, Chairman, and CEO, of an outstanding stock option, resulting in the issuance of 60,000,000 shares of our Class B common stock, our pro forma as adjusted net tangible book value as of March 31, 2012 would have been approximately $11 billion, or $5.15 per share of common stock. This represents an immediate increase in pro forma as adjusted net tangible book value of $2.30 per share to our existing stockholders and an immediate dilution of $26.35 per share to investors purchasing shares in our initial public offering.

The following table illustrates this per share dilution.

Assumed initial offering price per share		$ 31.50
Pro forma net tangible book value per share as of March 31, 2012	$ 2.85	
Increase in pro forma net tangible book value per share attributable to investors purchasing shares in our initial public offering	2.30	
Pro forma as adjusted net tangible book value per share after our initial public offering		5.15
Dilution in pro forma net tangible book value per share to investors in this offering		$ 26.35

A $1.00 increase (decrease) in the assumed initial public offering price of $31.50 per share would increase (decrease) our pro forma as adjusted net tangible book value per share after our initial public offering by $0.08, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same, and after deducting the estimated underwriting discounts and commissions payable by us.

If the underwriters option to purchase additional shares to cover over-allotments is exercised in full, the pro forma net tangible book value per share after giving effect to our initial public offering would be approximately $5.22 per share, and the dilution in pro forma net tangible book value per share to investors in our initial public offering would be approximately $26.28 per share.

The following table summarizes, as of March 31, 2012, the differences between the number of shares of our common stock purchased from us, after giving effect to the conversion of our convertible preferred stock into Class B common stock and the partial exercise by Mark Zuckerberg of an outstanding stock option, the total cash consideration paid, and the average price per share paid by our existing stockholders and by our new investors purchasing shares in our initial public offering at the assumed initial public offering price of the Class A common

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stock of $31.50 per share, the midpoint of the price range on the cover page of this prospectus, before deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us:

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders	1,958,085,037	91.6%	$ 2,167,000,000	27.7%	$ 1.11
New investors	180,000,000	8.4	5,670,000,000	72.3	31.50
Total	2,138,085,037	100%	$ 7,837,000,000	100%	

A $1.00 increase (decrease) in the assumed initial public offering price of $31.50 per share would increase (decrease) total consideration paid by new investors by $180 million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same.

Sales of shares of Class A common stock by the selling stockholders in our initial public offering will reduce the number of shares of common stock held by existing stockholders to 1,800,669,685, or approximately 84.2% of the total shares of common stock outstanding after our initial public offering, and will increase the number of shares held by new investors to 337,415,352, or approximately 15.8% of the total shares of common stock outstanding after our initial public offering.

After giving effect to the sale of shares in this offering by us and the selling stockholders, if the underwriters option to purchase additional shares to cover over-allotments is exercised in full, our existing stockholders would own 81.9% and our new investors would own 18.1% of the total number of shares of our common stock outstanding after our initial public offering.

The above table and discussion include: (i) 117,549,393 shares of our Class A common stock and 1,780,535,644 shares of our Class B common stock outstanding as of March 31, 2012; and (ii) the issuance of 60,000,000 shares of our Class B common stock upon the partial exercise by Mark Zuckerberg, our founder, Chairman, and CEO, of an outstanding stock option to purchase 120,000,000 shares of our Class B common stock, and exclude:

- 116,756,442 shares of Class B common stock issuable upon the exercise of options outstanding as of March 31, 2012 under our 2005 Stock Plan, with a weighted-average exercise price of approximately $0.94 per share;

- 60,000,000 shares of Class B common stock issuable upon the exercise of the remaining portion of an option held by Mr. Zuckerberg, with an exercise price of $0.06 per share;

- 378,429,048 shares of Class B common stock subject to RSUs outstanding as of March 31, 2012 under our 2005 Stock Plan;

- 22,999,412 shares of common stock issuable upon completion of our acquisition of Instagram, Inc.;

25,257,815 shares of Class B common stock subject to RSUs granted under our 2005 Stock Plan and 40,000 shares of Class A common stock issued between April 1, 2012 and May 3, 2012; and

77,466,293 shares of our common stock reserved for future issuance under our equity compensation plans, consisting of 25,000,000 shares of Class A common stock reserved for issuance under our 2012 Equity Incentive Plan, and 52,466,293 shares of Class B common stock reserved as of March 31, 2012 for issuance under our 2005 Stock Plan (which reserve includes the 25,257,815 shares of Class B common stock subject to RSUs granted after March 31, 2012). On the date of this prospectus, any remaining shares available for issuance under our 2005 Stock Plan will be added to the shares reserved under our 2012 Equity Incentive Plan and we will cease granting awards under the 2005 Stock Plan. Our 2012 Equity Incentive Plan also provides for automatic annual increases in the number of shares reserved thereunder and for increases based on forfeited or withheld shares and other events, as more fully described in Executive Compensation Employee Benefit Plans.

To the extent that any outstanding options are exercised or RSUs are settled, there will be further dilution to new investors.

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SELECTED CONSOLIDATED FINANCIAL DATA

The consolidated statements of income data for each of the years ended December 31, 2009, 2010, and 2011 and the consolidated balance sheets data as of December 31, 2010 and 2011 are derived from our audited consolidated financial statements that are included elsewhere in this prospectus. The consolidated statements of operations data for the years ended December 31, 2007 and 2008 and the consolidated balance sheets data as of December 31, 2007, 2008, and 2009 are derived from audited consolidated financial statements that are not included in this prospectus. The consolidated statements of income data for the three months ended March 31, 2011 and 2012, and the consolidated balance sheet data as of March 31, 2012 have been derived from our unaudited consolidated financial statements appearing elsewhere in this prospectus. In our opinion, such financial statements include all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of the financial information set forth in those statements. Our historical results are not necessarily indicative of our results in any future period.

You should read this information together with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this prospectus.

	Year Ended December 31,					Three Months Ended March 31,	
	2007	2008	2009	2010	2011	2011	2012
	(in millions, except per share data)						
Consolidated Statements of Operations Data:							
Revenue	$ 153	$ 272	$ 777	$ 1,974	$ 3,711	$ 731	$ 1,058
Costs and expenses[1] :							
Cost of revenue	41	124	223	493	860	167	277
Marketing and sales	32	76	115	184	427	68	159
Research and development	81	47	87	144	388	57	153
General and administrative	123	80	90	121	280	51	88
Total costs and expenses	277	327	515	942	1,955	343	677
Income (loss) from operations	(124)	(55)	262	1,032	1,756	388	381
Interest and other income (expense), net	(11)	(1)	(8)	(24)	(61)	10	1
Income (loss) before provision for income taxes	(135)	(56)	254	1,008	1,695	398	382
Provision for income taxes	3		25	402	695	165	177
Net income (loss)	$ (138)	$ (56)	$ 229	$ 606	$ 1,000	$ 233	$ 205
Net income (loss) attributable to Class A and Class B common stockholders	$ (138)	$ (56)	$ 122	$ 372	$ 668	$ 153	$ 137
Earnings (loss) per share attributable to Class A and Class B common stockholders[2]:							
Basic	$ (0.16)	$ (0.06)	$ 0.12	$ 0.34	$ 0.52	$ 0.12	$ 0.10
Diluted	$ (0.16)	$ (0.06)	$ 0.10	$ 0.28	$ 0.46	$ 0.11	$ 0.09
Pro forma earnings per share attributable to Class A and Class B common stockholders[2]:							
Basic					$ 0.49		$ 0.10

Diluted	$ 0.43	$ 0.09

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(1) Costs and expenses include share-based compensation expense as follows:

	Year Ended December 31,					Three Months Ended March 31,	
	2007	2008	2009	2010	2011	2011	2012
	(in millions)						
Cost of revenue	$ 1	$	$	$	$ 9	$	$ 4
Marketing and sales	3	4	2	2	43		23
Research and development	56	7	6	9	114	4	60
General and administrative	13	19	19	9	51	3	16
Total share-based compensation expense	$ 73	$ 30	$ 27	$ 20	$ 217	$ 7	$ 103

(2) See note 2 of the notes to our consolidated financial statements for a description of how we compute basic and diluted earnings (loss) per share attributable to Class A and Class B common stockholders and pro forma basic and diluted earnings per share attributable to Class A and Class B common stockholders.

	As of December 31,					As of March 31,
	2007	2008	2009	2010	2011	2012
	(in millions)					
Consolidated Balance Sheets Data:						
Cash, cash equivalents, and marketable securities	$ 305	$ 297	$ 633	$ 1,785	$ 3,908	$ 3,910
Working capital	250	279	703	1,857	3,705	3,655
Property and equipment, net	82	131	148	574	1,475	1,855
Total assets	448	505	1,109	2,990	6,331	6,859
Total liabilities	174	170	241	828	1,432	1,587
Total stockholders equity	273	335	868	2,162	4,899	5,272

Free Cash Flow

In addition to other financial measures presented in accordance with U.S. generally accepted accounting principles (GAAP), we monitor free cash flow (FCF) as a non-GAAP measure to manage our business, make planning decisions, evaluate our performance, and allocate resources. We define FCF as net cash provided by operating activities reduced by purchases of property and equipment and property and equipment acquired under capital leases.

We believe that FCF is one of the key financial indicators of our business performance over the long term and provides useful information regarding whether cash provided by operating activities is sufficient to fund the ongoing property and equipment investments required to maintain and grow our business. We have chosen to subtract both purchases of property and equipment and property and equipment acquired under capital leases in our calculation of FCF because we believe that these two items collectively represent the amount of property and equipment we need to procure to support our business, regardless of whether we finance such property or equipment with a capital lease. The market for financing servers and other technical equipment is dynamic and we expect our use of capital leases could vary significantly from year to year.

We have chosen our definition for FCF because we believe that this methodology can provide useful supplemental information to help investors better understand underlying trends in our business. We present FCF in this document in the same manner it is shared with our senior management and board of directors.

FCF has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of other GAAP financial measures, such as net cash provided by operating activities. Some of the limitations of FCF are:

- FCF does not reflect our future contractual commitments; and

- other companies in our industry present similarly titled measures differently than we do, limiting their usefulness as comparative measures.

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Management compensates for the inherent limitations associated with using the FCF measure through disclosure of such limitations, presentation of our financial statements in accordance with GAAP, and reconciliation of FCF to the most directly comparable GAAP measure, net cash provided by operating activities, as presented below.

The following is a reconciliation of FCF to the most comparable GAAP measure, net cash provided by operating activities:

	Year Ended December 31,					Three Months Ended March 31,	
	2007	2008	2009	2010	2011	2011	2012
				(in millions)			
Net cash provided by operating activities	$ 11	$ 8	$ 155	$ 698	$ 1,549	$ 345	$ 441
Purchases of property and equipment	(55)	(70)	(33)	(293)	(606)	(153)	(453)
Property and equipment acquired under capital leases	(11)	(26)	(56)	(217)	(473)	(211)	(38)
Free cash flow	$ (55)	$ (88)	$ 66	$ 188	$ 470	$ (19)	$ (50)

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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 that appear in this prospectus. In addition to historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this prospectus, particularly in Risk Factors. For a discussion of limitations in the measurement of certain of our user metrics, see the section entitled Industry Data and User Metrics.

Overview

Our mission is to make the world more open and connected. Facebook enables you to express yourself and connect with the world around you instantly and freely.

We build products that support our mission by creating utility for users, developers, and advertisers:

Users. We enable people who use Facebook to stay connected with their friends and family, to discover what is going on in the world around them, and to share and express what matters to them to the people they care about.

Developers. We enable developers to use the Facebook Platform to build applications (apps) and websites that integrate with Facebook to reach our global network of users and to build products that are more personalized, social, and engaging.

Advertisers. We enable advertisers to engage with more than 900 million monthly active users (MAUs) on Facebook or subsets of our users based on information they have chosen to share with us such as their age, location, gender, or interests. We offer advertisers a unique combination of reach, relevance, social context, and engagement to enhance the value of their ads.

We generate substantially all of our revenue from advertising and from fees associated with our Payments infrastructure that enables users to purchase virtual and digital goods from our Platform developers. In 2011, we recorded revenue of $3,711 million, operating income of $1,756 million, and net income of $1,000 million. In the first quarter of 2012, we recorded revenue of $1,058 million, operating income of $381 million, and net income of $205 million. We were incorporated in July 2004 and are headquartered in Menlo Park, California.

Highlights in our history are depicted in the graphic on the next page.

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Our History

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Trends in Our User Metrics

Monthly Active Users (MAUs). We define a monthly active user as a registered Facebook user who logged in and visited Facebook through our website or a mobile device, or took an action to share content or activity with his or her Facebook friends or connections via a third-party website that is integrated with Facebook, in the last 30 days as of the date of measurement. MAUs are a measure of the size of our global active user community, which has grown substantially in the past several years.

Note: For purposes of reporting MAUs, DAUs, and ARPU by geographic region, Europe includes all users in Russia and Turkey, Asia includes all users in Australia and New Zealand, and Rest of World includes Africa, Latin America, and the Middle East.

As of March 31, 2012, we had 901 million MAUs, an increase of 33% from March 31, 2011. We experienced growth across different geographies, with users in Brazil, India, and the United States representing key sources of growth. We had 45 million MAUs in Brazil as of March 31, 2012, an increase of 180% from the same period in the prior year, and we had 51 million MAUs in India as of March 31, 2012, an increase of 107% from the same period in the prior year. Additionally, we had 169 million MAUs in the United States as of March 31, 2012, an increase of 15% from the same period in the prior year.

There are more than two billion global Internet users, according to an IDC report dated August 2011, and we aim to connect all of them. We have achieved varying levels of penetration within the population of Internet users in different countries. For example, as of December 31, 2011, in countries such as Chile, Turkey, and Venezuela we estimate that we had penetration rates of greater than 85%

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of Internet users; in countries such as India, the United Kingdom and the United States we estimate that we had penetration rates of approximately 60%; in countries such as Brazil and Germany we estimate that we had penetration rates of approximately 30-40%; in countries such as Japan, Russia, and South Korea we estimate that we had penetration rates of 20% or lower; and in China, where Facebook access is restricted, we have near 0% penetration. We continue to invest in growing our user base, particularly in markets where we are relatively less penetrated. We expect MAU growth will benefit from increases in worldwide Internet users, in particular as a result of increasing broadband penetration and usage of mobile devices in developing markets. Growth in MAUs depends on our ability to retain our current users, re-engage with inactive users, and add new users, including by extending our reach across mobile platforms.

Daily Active Users (DAUs). We define a daily active user as a registered Facebook user who logged in and visited Facebook through our website or a mobile device, or took an action to share content or activity with his or her Facebook friends or connections via a third-party website that is integrated with Facebook, on a given day. We view DAUs, and DAUs as a percentage of MAUs, as measures of user engagement.

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Worldwide DAUs increased 41% to 526 million on average during March 2012 from 372 million during March 2011. We experienced growth in DAUs across major markets including the United States, Brazil, and India. Increased mobile usage was a key contributor to this growth. DAUs as a percentage of MAUs increased from 55% in March 2011 to 58% in March 2012, which we believe was driven entirely by increased mobile usage of Facebook. We believe that increases in DAUs and in DAUs as a percentage of MAUs generally positively affect our revenue because increases in user engagement may enable us to deliver more relevant commercial content to our users and may provide us with more opportunities for monetization.

We believe that we have the opportunity to continue to grow our DAUs around the world. Growth in DAUs depends on our ability to attract new users and increase the frequency of engagement for existing users. We aim to increase DAUs by developing products that are more compelling for our users, increasing the relevance of the information we display for each user, increasing the number of compelling Platform apps and website integrations, and improving the quality of our products across mobile platforms. We also believe that younger users have higher levels of engagement with the web and mobile devices in general and with Facebook specifically. We anticipate that demographic trends over the long term may contribute to growth in engagement as a greater number of users will come from demographic groups that have grown up with the web and mobile devices and who spend more time online every day.

Mobile MAUs. We define a mobile MAU as a user who accessed Facebook via a mobile app or via mobile-optimized versions of our website such as m.facebook.com, whether on a mobile phone or tablet such as the iPad, during the period of measurement.

Worldwide mobile MAUs increased by 69% from 288 million as of March 31, 2011 to 488 million as of March 31, 2012. In all regions, an increasing number of our MAUs are accessing Facebook through mobile devices, with users in the United States, India, Indonesia, and Brazil representing key sources of mobile growth over this period. We estimate that approximately 83 million mobile MAUs accessed Facebook solely through mobile apps or our mobile website during the month ended March 31, 2012, and we believe that mobile-only users increased relative to the same period in the prior year. The remaining 405 million mobile MAUs accessed Facebook from both personal computers and mobile devices during that month. We believe that our mobile MAU growth was driven by increased consumer usage of mobile devices generally and also by our product enhancements across several mobile platforms. For example, we improved our product offerings on feature phones following our acquisition of Snaptu in April 2011 and we launched the Facebook app for the iPad in October 2011. Improving our mobile products and increasing mobile usage of Facebook are key company priorities that we believe are critical to help us maintain and grow our user base and engagement over the long term. We expect consumers around the world will increase the amount of time they spend and the information they share and consume through mobile devices.

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We have historically not shown ads to users accessing Facebook through mobile apps or our mobile website. To the extent that increasing usage of Facebook through mobile apps or our mobile website substitutes for the use of Facebook through personal computers where we do show ads, the number of ads that we deliver to users and our revenue may be negatively affected unless and until we are successful with monetization strategies for mobile usage of Facebook, such as the implementation of sponsored stories in users mobile News Feeds, which we began in March 2012. We believe that people around the world will continue to increase their mobile usage of Facebook, and that some of this mobile usage has been and will continue to be a substitute for use of Facebook through personal computers.

Trends in Our Monetization by User Geography

Note: Our revenue by user geography in the charts above is geographically apportioned based on our estimation of the geographic location of our users when they perform a revenue-generating activity. This allocation differs from our revenue by geography disclosure in our consolidated financial statements where revenue is geographically apportioned based on the location of the advertiser or developer.

We estimate our revenue by user geography based on the geography in which ad impressions are delivered or virtual goods are purchased. We define average revenue per user (ARPU) as our total revenue in a given geography during a given period, divided by the average of the number of MAUs in the geography at the beginning and end of the period. Our revenue and ARPU in markets such as the United States, Canada, and Europe are relatively higher due to the size and maturity of those advertising markets as well as our greater sales presence and the number of payment methods that we make available to advertisers and users.

In the first quarter of 2012, 50% of our revenue was generated by users in the United States and Canada, a decrease from 54% of our revenue for the first quarter of 2011, and in 2011, 52% of our revenue was generated by users in the United States and Canada, as compared to 58% in 2010, as we experienced more rapid revenue growth in markets such as Germany, Brazil, Australia, and India.

During the first quarter of 2012, worldwide ARPU was $1.21, an increase of 6% from the first quarter of 2011. Over this period, ARPU increased across all geographies. User growth was more rapid in geographies with relatively lower ARPU, such as Asia and Rest of World. These user growth dynamics resulted in worldwide ARPU increasing at a slower rate than the rate experienced in any geographic region. ARPU in the first quarter of 2012 declined 12% from the fourth quarter of 2011. We believe the sequential quarterly decline was driven by seasonal trends, which also affected ARPU trends from the fourth quarter of 2010 to the first quarter of 2011, during which period ARPU declined by 10%. In addition, the sequential decline in ARPU in the first quarter of 2012 was affected by the fact that our user growth was higher in geographies with relatively lower ARPU. We expect that user growth in the future will continue to be higher in those regions where ARPU is relatively lower, such as Asia and Rest of World, such that worldwide ARPU may continue to increase at a slower rate relative to ARPU in any geographic region, or potentially decrease even if ARPU increases in each geographic region.

ARPU increased 32% from $3.08 in 2009 to $4.08 in 2010 and 25% to $5.11 in 2011. In these periods, we experienced ARPU growth across all regions.

Factors Affecting Our Performance

Growth in MAUs, DAUs, and Mobile MAUs. Growth trends in MAUs, DAUs, and mobile MAUs are critical variables that affect our revenue and financial results by influencing the number of ads we are able to show, the value of those ads, the volume of Payments transactions, as well as our expenses and capital expenditures. We expect our user growth rates to decline as the size of our active user base increases and as we achieve higher market penetration rates. Additionally, as we grow our business and expand internationally, we expect to face challenges entering new markets such as China, where access to Facebook is restricted in whole or in part. As user growth rates slow, we expect the rate of growth in revenue will likely decline over time, which will affect our income from operations and net income.

Growth in Users by Geography. We expect future user growth to be relatively higher in Asia and Rest of World where on average users generate less revenue as compared with users in the United States or Europe. In general, new users in Asia and Rest of World do not require material incremental infrastructure investments because we are able to utilize existing infrastructure such as our data centers in the United States to make our products available to these users. In addition, we do not believe that user growth by geography materially affects our overall headcount requirements or headcount-related expenses since we are generally able to support users in all geographies from our existing facilities.

User Engagement. Changes in user engagement also affect our revenue and financial performance. Growth in user engagement may increase the opportunities for us to display advertising and our ability to deliver relevant commercial content to users. Growth in user engagement also generally results in increases in our expenses and capital expenditures required to support user activity. We believe that overall engagement as measured by the percentage of users who create content (such as wall posts, messages, or photos) or generate feedback (such as by Liking or

Commenting on the content created) has remained stable or increased as our user base has grown. Moreover, the average amount of content and feedback created by each user has continued to increase over time.

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Increasing Mobile Usage. Increasing use of Facebook on mobile devices will also affect our performance, particularly if mobile use substitutes for use on personal computers. Historically, we have not shown ads to users accessing Facebook through mobile apps or our mobile website and we cannot be certain that our mobile monetization approaches will be successful in generating meaningful revenue. We cannot quantify the extent to which mobile usage of Facebook is substituting for, rather than incremental to, usage of Facebook through personal computers, but we generally expect mobile usage to increase at a faster rate than usage through personal computers for the foreseeable future.

Value of Advertising Products. We believe that increasing the value of our advertising products and the consequent return on investment to advertisers from working with Facebook will increase advertiser demand and thereby increase the amount advertisers spend with us. We aim to increase the value of our advertising products through such means as increasing the size and engagement of our user base, improving our ability to select relevant content of interest to individual users, developing new formats and products such as ads with social context, and improving the measurement tools available to advertisers to optimize their campaigns. For example, in 2011, we launched sponsored stories as a new format to leverage social context, and in March 2012, we began to include sponsored stories in users mobile News Feeds.

Management of Ad Inventory. Our revenue trends are also affected by ad inventory management changes affecting the number, size, or prominence of ads we display. For example, in the fourth quarter of 2010, we significantly increased the number of ads on many Facebook pages. As another example, in the fourth quarter of 2011, we increased the reserve price (i.e., the minimum price threshold) in our advertising auction system in order to reduce the frequency with which low quality ads are displayed to users. This change caused a reduction in the overall number of ads shown and increased the average price per ad as a result of factors including the removal of ads with bids that were below the reserve price and some advertisers raising their bids in response to this change. For this particular change, we estimate that the decrease in the number of ads displayed and the increase in average price per ad approximately offset each other such that the impact on total revenue was minimal.

Product Innovation. We make ongoing product changes intended to enhance the user experience. In September 2011, at our f8 conference, we announced the launch of Timeline as an enhanced and updated version of the Facebook Profile to enable users to better organize and access the growing quantity of their updates, photos, comments, and other content. Timeline was rolled out broadly around the world in the first quarter of 2012. Also in September 2011, we announced the launch of the next iteration of Open Graph APIs, which enables Platform developers to create new types of social apps that facilitate sharing, self-expression, and serendipitous discovery across a broad variety of activities and interests. We expanded the Open Graph to include more types of sharing activities in the first quarter of 2012.

Investment in Infrastructure. In 2011, we continued to make significant investments in our technical infrastructure to ensure that our growing user base can access Facebook rapidly and reliably. In April 2011 and March 2012, respectively, we began serving user traffic out of our owned and built data centers in Prineville, Oregon and Forest City, North Carolina. We developed designs for data centers, server hardware, and software that were optimized for use in our new data center facilities, resulting in significant increases in energy efficiency while significantly reducing our server operation costs compared to the usage of traditional servers and leased data centers. We are investing in additional Facebook-owned data centers in the United States and Europe and we aim to deliver Facebook products rapidly and reliably to all users around the world.

Investment in Talent. At the end of the first quarter of 2012, we had 3,539 full-time employees, an increase of 46% from the same period in 2011. Our employee headcount has increased significantly and we expect this growth to continue for the foreseeable future. We have also made and intend to make acquisitions with the primary objective of adding software engineers, product designers, and other personnel with certain technology expertise. While our organization is growing rapidly, we are focused on increasing our talent base at a rate that allows us to preserve our culture.

Business Development and Acquisitions. As part of our business strategy, we have made and intend to make acquisitions to add specialized employees, complementary companies, products, technologies, or other assets. For example, in April 2012, we entered into an agreement to acquire Instagram, Inc. and an agreement with Microsoft Corporation to obtain certain patent assets from AOL Inc. Our acquisitions will affect our future financial results due to factors such as the amortization of acquired intangible assets or other potential charges such as restructuring costs or impairment expense.

Share-based Compensation Expense. We have granted restricted stock units (RSUs) to our employees and members of our board of directors. RSUs granted prior to January 1, 2011 (Pre-2011 RSUs) under our 2005 Stock Plan vest upon the satisfaction of both a service condition and a liquidity condition. The service condition for the majority of these awards is satisfied over four years. The liquidity condition is satisfied upon the occurrence of a qualifying event, defined as a change of control transaction or six months following the effective date of our initial public offering. Pre-2011 RSUs for which the service condition has been satisfied are not forfeited should an employee terminate prior to the liquidity condition being met.

As of March 31, 2012, we have recognized no share-based compensation expense for Pre-2011 RSUs because a qualifying event described above had not occurred. In the quarter in which our initial public offering is completed, we will recognize share-based compensation expense using the accelerated attribution method, net of forfeitures, based on the grant date fair value of the Pre-2011 RSUs. For the Pre-2011 RSUs, if the initial public offering had been completed on March 31, 2012, we would have recognized $965 million of share-based compensation expense for all RSUs that met the service condition as of that date, and would have approximately $235 million of additional future period expense to be recognized over the remaining service periods through 2018.

RSUs granted on or after January 1, 2011 (Post-2011 RSUs) are not subject to a liquidity condition in order to vest. Share-based compensation expense related to these grants is based on the grant date fair value of the RSUs and is recognized on a straight-line basis over the applicable service period. The majority of Post-2011 RSUs are earned over a service period of four to five years. In 2011 and the first quarter of 2012, we recognized $189 million and $97 million, respectively, of share-based compensation expense related to the Post-2011 RSUs, and we anticipate recognizing $1,119 million of future period expense related to Post-2011 RSUs outstanding as of March 31, 2012.

As of March 31, 2012, there was $2,381 million of unrecognized share-based compensation expense, of which $2,319 million is related to RSUs and $62 million is related to restricted shares and stock options. This unrecognized share-based compensation expense is expected to be recognized over a weighted-average period of approximately two years.

See Critical Accounting Policies and Estimates Share-based Compensation for additional information regarding our share-based compensation expense.

Components of Results of Operations

Revenue

We generate substantially all of our revenue from advertising and from fees associated with our Payments infrastructure that enables users to purchase virtual and digital goods from our Platform developers.

Advertising. Our advertising revenue is generated by displaying ad products on our website. Advertisers pay for ad products displayed on Facebook, either directly or through their relationships with advertising agencies, based on the number of impressions delivered or the number of clicks made by our users. We recognize revenue from the display of impression-based ads on our website in the contracted period in which the impressions are delivered. Impressions are considered delivered when an ad appears in pages displayed to users. We recognize revenue from the delivery of click-based ads on our website in the period in which a user clicks on an ad.

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Payments and other fees. We enable Payments from our users to our Platform developers. Our users can transact and make payments on the Facebook Platform by using credit cards, PayPal or other payment methods available on our website. We receive a fee from our Platform developers when users make purchases from our Platform developers using our Payments infrastructure. We recognize revenue net of amounts remitted to our Platform developers. We have mandated the use of our Payments infrastructure for game apps on Facebook, and fees related to Payments are generated almost exclusively from games. To date, games from Zynga have generated the majority of our payments and other fees revenue. In addition, we generate other fees revenue in connection with arrangements related to business development transactions and fees from various mobile providers; in recent periods, other fees revenue has been immaterial.

Cost of Revenue and Operating Expenses

Cost of revenue. Our cost of revenue consists primarily of expenses associated with the delivery and distribution of our products. These include expenses related to the operation of our data centers such as facility and server equipment depreciation, facility and server equipment rent expense, energy and bandwidth costs, support and maintenance costs, and salaries, benefits, and share-based compensation for employees on our operations teams. Cost of revenue also includes credit card and other transaction fees related to processing customer transactions.

Marketing and sales. Our marketing and sales expenses consist primarily of salaries, benefits, and share-based compensation for our employees engaged in sales, sales support, marketing, business development, and customer service functions. Our marketing and sales expenses also include user-, developer-, and advertiser-facing marketing and promotional expenditures.

Research and development. Research and development expenses consist primarily of salaries, benefits, and share-based compensation for employees on our engineering and technical teams who are responsible for building new products as well as improving existing products. We expense substantially all of our research and development costs as they are incurred.

General and administrative. Our general and administrative expenses consist primarily of salaries, benefits, and share-based compensation for our executives as well as our finance, legal, human resources, and other administrative employees. In addition, general and administrative expenses include outside consulting, legal and accounting services, and facilities and other supporting overhead costs. General and administrative expenses also include legal settlements.

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Results of Operations

The following table summarizes our historical consolidated statements of income data:

	Year Ended December 31,			Three Months Ended March 31,	
	2009	2010	2011	2011	2012
			(in millions)		
Consolidated Statements of Income Data:					
Revenue	$ 777	$ 1,974	$ 3,711	$ 731	$ 1,058
Costs and expenses(1):					
Cost of revenue	223	493	860	167	277
Marketing and sales	115	184	427	68	159
Research and development	87	144	388	57	153
General and administrative	90	121	280	51	88
Total costs and expenses	515	942	1,955	343	677
Income from operations	262	1,032	1,756	388	381
Interest and other income (expense), net	(8)	(24)	(61)	10	1
Income before provision for income taxes	254	1,008	1,695	398	382
Provision for income taxes	25	402	695	165	177
Net income	$ 229	$ 606	$ 1,000	$ 233	$ 205

(1) Costs and expenses include share-based compensation expense as follows:

	Year Ended December 31,			Three Months Ended March 31,	
	2009	2010	2011	2011	2012
			(in millions)		
Cost of revenue	$	$	$ 9	$	$ 4
Marketing and sales	2	2	43		23
Research and development	6	9	114	4	60
General and administrative	19	9	51	3	16
Total share-based compensation expense	$ 27	$ 20	$ 217	$ 7	$ 103

The following table summarizes our historical consolidated statements of income data as a percentage of revenue for the periods shown:

	Year Ended December 31,			Three Months Ended March 31,	
	2009	2010	2011	2011	2012
Consolidated Statements of Income Data:					
Revenue	100%	100%	100%	100%	100%
Costs and expenses(1):					

Cost of revenue	29	25	23	23	26
Marketing and sales	15	9	12	9	15
Research and development	11	7	10	8	14
General and administrative	12	6	8	7	8
Total costs and expenses	66	48	53	47	64
Income from operations	34	52	47	53	36
Interest and other income (expense), net	(1)	(1)	(2)	1	
Income before provision for income taxes	33	51	46	54	36
Provision for income taxes	3	20	19	23	17
Net income	29%	31%	27%	32%	19%

(1) Costs and expenses include the following share-based compensation expense as a percentage of revenue:

	Year Ended December 31,			Three Months Ended March 31,	
	2009	**2010**	**2011**	**2011**	**2012**
Cost of revenue	%	%	%	%	%
Marketing and sales			1		2
Research and development	1		3	1	6
General and administrative	2		1		2
Total share-based compensation expense	3%	1%	6%	1%	10%

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Three Months Ended March 31, 2011 and 2012

Revenue

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2012	% Change
	(in millions)		
Advertising revenue	$ 637	$ 872	37%
Payments and other fees revenue	94	186	98%
Total revenue	$ 731	$ 1,058	45%

Revenue in the first quarter of 2012 increased $327 million, or 45%, compared to the same period in 2011. The increase was due primarily to a 37% increase in advertising revenue to $872 million. Advertising revenue grew due to a 35% increase in the number of ads delivered. The increase in ads delivered was driven primarily by user growth; MAUs grew 33% from March 31, 2011 to March 31, 2012 and average DAUs grew 41% from March 2011 to March 2012. Average price per ad for the first quarter of 2012 compared to the first quarter of 2011 was unchanged, as an increase in the average price per ad in the United States and Canada was offset by an increased percentage of our worldwide ads being delivered in the Asia and Rest of World geographies where the average price per ad, while growing on a year-over-year basis, is relatively lower. The average price per ad was also affected by a decline in the average price per ad in Europe in the first quarter of 2012 compared to the same period in 2011 due, we believe, to continuing weak economic conditions in that region.

Payments and other fees revenue in the first quarter of 2012 increased to $186 million, or 98%, compared to the first quarter of 2011. Facebook Payments became mandatory for all game developers accepting payments on the Facebook Platform with limited exceptions on July 1, 2011. Accordingly, comparisons of Payments and other fees revenue to periods before this date may not be meaningful.

Based upon our experience in the second quarter of 2012 to date, the trend we saw in the first quarter of DAUs increasing more rapidly than the increase in number of ads delivered has continued. We believe this trend is driven in part by increased usage of Facebook on mobile devices where we have only recently begun showing an immaterial number of sponsored stories in News Feed, and in part due to certain pages having fewer ads per page as a result of product decisions. For additional information on factors that may affect these matters, see Risk Factors Growth in use of Facebook through our mobile products, where our ability to monetize is unproven, as a substitute for use on personal computers may negatively affect our revenue and financial results and Risk Factors Our culture emphasizes rapid innovation and prioritizes user engagement over short-term financial results.

Thirteen percent and 11% of our total revenue for the first quarter of 2011 and 2012, respectively, came from a single customer, Zynga. This revenue consisted of Payments processing fees related to Zynga s sale of virtual goods and from direct advertising purchased by Zynga. Additionally, Zynga s apps generate pages on which we display ads from other advertisers; for the first quarter of 2012, we estimate that an additional approximately 4% of our total revenue was generated from the display of these ads. In May 2010, we entered into an addendum to our standard terms and conditions with Zynga pursuant to which it agreed to use Facebook Payments as the primary means of payment within Zynga games played on the Facebook Platform. Under this addendum, we retain a fee of up to 30% of the face value of user purchases in Zynga s games on the Facebook Platform. This addendum expires in May 2015.

Cost of revenue

	Three Months Ended March 31,		
	2011	2012	% Change
	(in millions)		
Cost of revenue	$ 167	$ 277	66%
Percentage of revenue	23%	26%	

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Cost of revenue in the first quarter of 2012 increased $110 million, or 66%, compared to the same period in 2011. The increase was primarily due to expenses related to expanding our data center operations, including a $59 million increase in depreciation, and to a lesser extent, an increase in payroll and benefits expenses resulting from a 66% increase in employee headcount. These expenses supported our user growth, the increased usage of our products by users, developers, and advertisers, and the launch of new products.

We anticipate that cost of revenue will increase in dollar amount for the foreseeable future as we expand our data center capacity to support user growth, increased user engagement, and the delivery of new products and offerings. We expect costs will also rise for payment processing as we increase Payments volumes. The expected increase in cost of revenue may be partially mitigated to the extent we are able to realize improvements in server performance and the efficiency of our technical operations. We expect cost of revenue as a percentage of revenue to increase in 2012 compared to 2011 as we continue to invest in our technical infrastructure.

Marketing and sales

	Three Months Ended March 31,		
	2011	2012	% Change
	(in millions)		
Marketing and sales	$68	$159	134%
Percentage of revenue	9%	15%	

Marketing and sales expenses in the first quarter of 2012 increased $91 million, or 134%, compared to the same period in 2011. The increase was primarily due to an increase in our user-, developer-, and advertiser-facing marketing, and to a lesser extent, an increase in payroll and benefits expenses resulting from a 34% increase in employee headcount to support global sales, business development, and customer service. Additionally, share-based compensation expense increased to $23 million in the first quarter of 2012 due to recognition of expense related to Post-2011 RSUs. In the same period in 2011, share-based compensation expense was immaterial.

We anticipate that marketing and sales expenses will increase in dollar amount and as a percentage of revenue in 2012 compared to 2011 as a result of continued growth in headcount and headcount-related expenses, including share-based compensation expense related to Post-2011 RSUs. We plan to add sales, business development and customer service employees, open new offices, and continue our investment in user-, developer-, and advertiser-facing marketing. Assuming we complete our initial public offering in 2012, we also anticipate a significant increase in marketing and sales expenses in 2012 due to the inclusion of share-based compensation expense from Pre-2011 RSUs as described in Critical Accounting Policies and Estimates Share-based Compensation.

Research and development

	Three Months Ended March 31,		
	2011	2012	% Change
	(in millions)		
Research and development	$57	$153	168%
Percentage of revenue	8%	15%	

Research and development expenses in the first quarter of 2012 increased $96 million, or 168%, compared to the same period in 2011. The increase was primarily due to an increase of share-based compensation expense related to Post-2011 RSUs from $4 million in the first quarter of 2011 to $60 million in the same period in 2012. Payroll and benefits expense also increased due to a 55% growth in employee headcount in engineering, design, product management, and other technical functions. This investment supported our efforts to improve existing products and build new products for users, developers, and advertisers.

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We anticipate that research and development expenses will increase in dollar amount and as a percentage of revenue in 2012 compared to 2011 as a result of continued growth in headcount and headcount-related expenses, including share-based compensation expense related to Post-2011 RSUs. We plan to continue rapidly hiring engineering, design, product management, and other technical employees. Assuming we complete our initial public offering in 2012, we also anticipate a significant increase in research and development expenses in 2012 due to the inclusion of share-based compensation expense from Pre-2011 RSUs as described in Critical Accounting Policies and Estimates Share-based Compensation.

General and administrative

	Three Months Ended March 31,		
	2011	2012	% Change
	(in millions)		
General and administrative	$51	$88	73%
Percentage of revenue	7%	8%	

General and administrative expenses in the first quarter of 2012 increased $37 million, or 73%, compared to the same period in 2011. The increase was primarily due to an increase in payroll and benefits expenses resulting from a 57% increase in employee headcount in finance, legal, human resources, and other functions, and to a lesser extent, outside consulting and legal fees. Additionally, share-based compensation expense increased from $3 million in the first quarter of 2011 to $16 million in the same period in 2012 due to recognition of expense related to Post-2011 RSUs.

We anticipate that general and administrative expenses will increase in dollar amount and increase as a percentage of revenue in 2012 compared to 2011 as a result of growth in headcount and headcount-related expenses, including share-based compensation related to the Post-2011 RSUs. We plan to continue to increase general and administrative employee headcount to support our growth. Assuming we complete our initial public offering in 2012, we also anticipate a significant increase in general and administrative expenses in 2012 due to the inclusion of share-based compensation expense from Pre-2011 RSUs as described in Critical Accounting Policies and Estimates Share-based Compensation.

Interest and other income (expense), net

	Three Months Ended March 31,		
	2011	2012	% Change
	(in millions)		
Interest expense	$ (7)	$ (13)	86%
Other income, net	17	14	(18)%
Interest and other income (expense), net	$ 10	$ 1	(90)%

Interest and other income (expense), net in the first quarter of 2012 decreased $9 million, or 90%, compared to the same period in 2011. Interest expense increased by $6 million, primarily due to an increased volume of property and equipment financed by capital leases. The change in other income, net was primarily due to a $6 million decrease in foreign exchange related gains. Foreign exchange gains resulted from the periodic re-measurement of our intercompany Euro balances. This decrease was partially offset by an increase in interest income driven by larger invested cash balances.

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Provision for income taxes

	Three Months Ended March 31,		
	2011	2012	% Change
	(in millions)		
Provision for income taxes	$ 165	$ 177	7%
Effective tax rate	41%	46%	

Our provision for income taxes in the first quarter of 2012 increased $12 million, or 7%, compared to the same period in 2011. Our effective tax rate increased primarily due to the impact of non-deductible share-based compensation expense, losses arising outside the United States in jurisdictions where we do not receive a tax benefit, and the expiration of the federal tax credit for research and development activities at the end of 2011.

Assuming we complete our initial public offering in 2012, there will be a significant increase in our share-based compensation expense from Pre-2011 RSUs for the remainder of 2012. We expect that our effective tax rates in the quarter we complete our offering and the subsequent quarters of 2012 will be significantly greater than our effective tax rate was in the first quarter of 2012, primarily because certain share-based compensation expense will not be tax deductible in the United States. In addition, our effective tax rate may fluctuate significantly in any quarter in which there is significant share-based compensation expense or significant exercises or settlements of stock awards.

Our effective tax rate has exceeded the U.S. statutory rate in part because of losses arising outside the United States in jurisdictions where we do not receive a tax benefit. These losses were primarily due to the initial start-up costs incurred by our foreign subsidiaries to operate in certain foreign markets, including the costs incurred by those subsidiaries to license, develop, and use our intellectual property. Our effective tax rate in the future will depend on the portion of our profits earned within and outside the United States, which will also be affected by our methodologies for valuing our intellectual property and intercompany transactions.

Net income

Our net income in the first quarter of 2012 decreased compared to the same period in 2011. Total costs and expenses grew more than revenue, due in particular to a significant increase in share-based compensation expense for Post-2011 RSUs during the first quarter of 2012, which expense was not significant in the first quarter of 2011 due to the timing of RSU grants. We expect to incur a net loss in the second quarter of 2012 as a result of the share-based compensation expense associated with Pre-2011 RSUs that we will incur upon the effectiveness of our initial public offering, as described in Critical Accounting Policies and Estimates Share-based Compensation.

Years Ended December 31, 2009, 2010, and 2011

Revenue

Year Ended December 31,

	2009	2010	2011	2009 to 2010 % Change	2010 to 2011 % Change
		(in millions)			
Advertising revenue	$ 764	$ 1,868	$ 3,154	145%	69%
Payments and other fees revenue	13	106	557	NM	NM
Total revenue	$ 777	$ 1,974	$ 3,711	154%	88%

2011 Compared to 2010. Revenue in 2011 increased $1,737 million, or 88% compared to 2010. The increase was due primarily to a 69% increase in advertising revenue to $3,154 million. Advertising revenue grew due to a 42% increase in the number of ads delivered and an 18% increase in the average price per ad delivered.

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The increase in ads delivered was driven primarily by user growth; MAUs grew 39% from December 31, 2010 to December 31, 2011 and average DAUs grew 48% from December 2010 to December 2011. The number of ads delivered was also affected by many other factors including product changes that significantly increased the number of ads on many Facebook pages beginning in the fourth quarter of 2010, partially offset by an increase in usage of our mobile products, where we did not show ads, and by various product changes implemented in 2011 that in aggregate modestly reduced the number of ads on certain pages. The increase in average price per ad delivered was affected by factors including improvements in our ability to deliver more relevant ads to users and product changes that contributed to higher user interaction with the ads by increasing their relative prominence.

Payments and other fees revenue increased to $557 million in 2011 due to the adoption of Facebook Payments, which has been gradually adopted by our Platform developers and began generating significant revenue in the fourth quarter of 2010. We estimate that approximately 5 million and 15 million users purchased virtual or digital goods using Facebook Payments during the years ended December 31, 2010 and 2011, respectively. Facebook Payments became mandatory for all game developers accepting payments on the Facebook Platform with limited exceptions on July 1, 2011. Accordingly, comparisons of payments and other fees revenue to periods before that date may not be meaningful. In 2011, other fees revenue was immaterial.

In 2011, we generated approximately 56% of our revenue from advertisers and Platform developers based in the United States, compared to 62% in 2010. This change is due to factors including a faster growth rate of international users and the expansion of international sales offices and payment methods. The majority of our revenue outside of the United States came from customers located in western Europe, Canada, and Australia.

2010 Compared to 2009. Revenue in 2010 increased $1,197 million, or 154%, compared to 2009. The increase was primarily due to a 145% increase in advertising revenue to $1,868 million in 2010. Advertising revenue grew primarily due to an increase in the number of ads delivered driven by growth in users and engagement as well as the number of ads per page. MAUs grew 69% from December 31, 2009 to December 31, 2010 and average DAUs grew 77% from December 2009 to December 2010. Payments and other fees revenue increased to $106 million in 2010 due to the initial adoption of Facebook Payments during the year. In 2010, we generated approximately 62% of our revenue from advertisers and Platform developers based in the United States, compared to 67% in 2009.

Twelve percent of our total revenue in 2011, and less than 10% in 2010 and 2009, came from a single customer, Zynga. This revenue consisted of Payments processing fees related to Zynga s sales of virtual goods and from direct advertising purchased by Zynga. Additionally, Zynga s apps generate pages on which we display ads from other advertisers; for 2011, we estimate that an additional approximately 7% of our revenue was generated from the display of these ads.

Cost of revenue

	Year Ended December 31, 2009	2010	2011	2009 to 2010 % Change	2010 to 2011 % Change
	(dollars in millions)				
Cost of revenue	$ 223	$ 493	$ 860	121%	74%
Percentage of revenue	29%	25%	23%		

2011 Compared to 2010. Cost of revenue in 2011 increased $367 million, or 74%, compared to 2010. The increase was primarily due to expenses related to expanding our data center operations, including a $164 million increase in depreciation and a $35 million increase in data center facility rent. These expenses supported our user growth, the increased usage of our products by users, developers, and advertisers, and the launch of new products. Additionally, credit card and other related revenue processing fees increased by $60 million.

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2010 Compared to 2009. Cost of revenue in 2010 increased $270 million, or 121%, compared to 2009. The increase was primarily due to expenses related to expanding our data center operations, including a $77 million increase in equipment rent, a $49 million increase in depreciation, and a $33 million increase in data center facility rent. Additionally, credit card and other related revenue processing fees increased by $25 million.

Marketing and sales

	Year Ended December 31,			2009 to 2010	2010 to 2011
	2009	2010	2011	% Change	% Change
	(dollars in millions)				
Marketing and sales	$ 115	$ 184	$ 427	60%	132%
Percentage of revenue	15%	9%	12%		

2011 Compared to 2010. Marketing and sales expenses in 2011 increased $243 million, or 132%, compared to 2010. The increase was primarily due to an increase in payroll and benefits expenses resulting from a 46% increase in employee headcount to support global sales, business development, and customer service, and to a lesser extent, an increase in our user-, developer-, and advertiser-facing marketing. Additionally, share-based compensation expense increased from $2 million in 2010 to $43 million in 2011 due to recognition of expense related to Post-2011 RSUs.

2010 Compared to 2009. Marketing and sales expenses in 2010 increased $69 million, or 60%, compared to 2009. The increase was primarily due to an increase in payroll and benefits expenses resulting from a 90% increase in employee headcount to support global sales, business development, and customer service. Additionally, we increased our spending to support our user-, developer-, and advertiser-facing marketing as well as our market research and analytics capabilities.

Research and development

	Year Ended December 31,			2009 to 2010	2010 to 2011
	2009	2010	2011	% Change	% Change
	(dollars in millions)				
Research and development	$ 87	$ 144	$ 388	66%	169%
Percentage of revenue	11%	7%	10%		

2011 Compared to 2010. Research and development expenses in 2011 increased $244 million, or 169%, compared to 2010. The increase was primarily due to an increase from $9 million in 2010 to $114 million in 2011 for share-based compensation expense related to Post-2011 RSUs. Payroll and benefits expense also increased due to a 57% growth in employee headcount in engineering, design, product management, and other technical functions. This investment supported our efforts to improve existing products and build new products for users, developers, and advertisers.

2010 Compared to 2009. Research and development expenses in 2010 increased $57 million, or 66%, compared to 2009. The increase was primarily due to an increase in payroll and benefits expenses resulting from an 81% increase in employee headcount in engineering and related functions. This investment supported our efforts to improve existing products and build new products for users, developers, and advertisers.

General and administrative

	Year Ended December 31, 2009	2010	2011	2009 to 2010 % Change	2010 to 2011 % Change
	(dollars in millions)				
General and administrative	$ 90	$ 121	$ 280	34%	131%
Percentage of revenue	12%	6%	8%		

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2011 Compared to 2010. General and administrative expenses in 2011 increased $159 million, or 131%, compared to 2010. The increase was primarily due to an increase in payroll and benefits expenses resulting from a 54% increase in employee headcount in finance, legal, human resources, and other functions. Additionally, outside consulting and legal fees contributed to the increase. Share-based compensation expense increased from $9 million in 2010 to $51 million in 2011 due to recognition of expense related to Post-2011 RSUs.

2010 Compared to 2009. General and administrative expenses in 2010 increased $31 million, or 34%, compared to 2009. The increase was primarily due to an increase in payroll and benefits expenses resulting from a 61% increase in employee headcount in general and administrative functions and, to a lesser extent, an increase in outside consulting and legal fees.

Interest and other income (expense), net

	Year Ended December 31, 2009	2010 (in millions)	2011	2009 to 2010 % Change	2010 to 2011 % Change
Interest expense	$ (10)	$ (22)	$ (42)	120%	91%
Other income (expense), net	2	(2)	(19)	NM	NM
Interest and other income (expense), net	$ (8)	$ (24)	$ (61)	200%	154%

2011 Compared to 2010. Interest and other income (expense), net in 2011 increased $37 million, or 154%, compared to 2010. Interest expense increased by $20 million, driven by an increase in fees related to our credit facility as described in Liquidity and Capital Resources, and the payments related to an increased volume of property and equipment financed by capital leases. The change in other income (expense), net was primarily due to $29 million in foreign exchange related losses in 2011. Foreign exchange losses in 2011 stemmed from the periodic re-measurement of our intercompany Euro balances. Foreign currency balances were immaterial in 2010. These expenses were partially offset by an increase in interest income driven by larger invested cash balances.

2010 Compared to 2009. Interest expense in 2010 increased as a result of an increased use of capital leases and interest payments related to our $250 million credit facility as described in Liquidity and Capital Resources. This loan was repaid in full in March 2011.

Provision for income taxes

	Year Ended December 31, 2009	2010 (dollars in millions)	2011	2009 to 2010 % Change	2010 to 2011 % Change
Provision for income taxes	$ 25	$ 402	$ 695	NM	73%
Effective tax rate	10%	40%	41%		

2011 Compared to 2010. Our provision for income taxes in 2011 increased $293 million, or 73%, compared to 2010 primarily due to an increase in pre-tax income. Our effective tax rate increased primarily due to losses arising outside the United States in jurisdictions where we do not receive a tax benefit and the impact of non-deductible share-based compensation expense during the year.

2010 Compared to 2009. Our provision for income taxes in 2010 increased $377 million compared to 2009 primarily due to an increase in pre-tax income. Our effective tax rate increased primarily due to a benefit recorded in 2009 related to the release of a valuation allowance, which did not recur in 2010.

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Quarterly Results of Operations Data

The following tables set forth our quarterly consolidated statements of income data in dollars and as a percentage of total revenue for each of the nine quarters in the period ended March 31, 2012. We have prepared the quarterly consolidated statements of income data on a basis consistent with the audited consolidated financial statements included elsewhere in this prospectus. In the opinion of management, the financial information reflects all adjustments, consisting only of normal recurring adjustments, which we consider necessary for a fair presentation of this data. This information should be read in conjunction with the audited consolidated financial statements and related notes included elsewhere in this prospectus. The results of historical periods are not necessarily indicative of the results for any future period.

	Three Months Ended (in millions)								
	Mar 31, 2010	Jun 30, 2010	Sep 30, 2010	Dec 31, 2010	Mar 31, 2011	Jun 30, 2011	Sep 30, 2011	Dec 31, 2011	Mar 31, 2012
Consolidated Statements of Income Data:									
Revenue:									
Advertising revenue	$ 340	$ 424	$ 450	$ 655	$ 637	$ 776	$ 798	$ 943	$ 872
Payments and other fees revenue	5	8	17	76	94	119	156	188	186
Total revenue	345	431	467	731	731	895	954	1,131	1,058
Costs and expenses[(1)]:									
Cost of revenue	100	111	131	150	167	210	236	247	277
Marketing and sales	36	44	45	59	68	103	124	132	159
Research and development	25	32	41	45	57	99	108	124	153
General and administrative	22	26	34	40	51	76	72	80	88
Total costs and expenses	183	213	251	294	343	488	540	583	677
Income from operations	162	218	216	437	388	407	414	548	381
Net income	$ 95	$ 129	$ 131	$ 251	$ 233	$ 240	$ 227	$ 302	$ 205

(1) Costs and expenses include share-based compensation expense as follows:

	Three Months Ended (in millions)								
	Mar 31, 2010	Jun 30, 2010	Sep 30, 2010	Dec 31, 2010	Mar 31, 2011	Jun 30, 2011	Sep 30, 2011	Dec 31, 2011	Mar 31, 2012
Cost of revenue	$	$	$	$	$	$ 3	$ 3	$ 3	$ 4
Marketing and sales		1		1		11	16	16	23
Research and development	2	2	2	3	4	35	33	42	60
General and administrative	3	2	2	2	3	15	18	15	16
Total share-based compensation	$ 5	$ 5	$ 4	$ 6	$ 7	$ 64	$ 70	$ 76	$ 103

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	Three Months Ended								
	Mar 31, 2010	**Jun 30, 2010**	**Sep 30, 2010**	**Dec 31, 2010**	**Mar 31, 2011**	**Jun 30, 2011**	**Sep 30, 2011**	**Dec 31, 2011**	**Mar 31, 2012**
	(as a percentage of total revenue)								
Consolidated Statements of Income Data:									
Revenue:									
Advertising revenue	99%	98%	96%	90%	87%	87%	84%	83%	82%
Payments and other fees revenue	1	2	4	10	13	13	16	17	18
Total revenue	100%	100%	100%	100%	100%	100%	100%	100%	100%
Costs and expenses(1):									
Cost of revenue	29%	26%	28%	21%	23%	23%	25%	22%	26%
Marketing and sales	10	10	10	8	9	12	13	12	15
Research and development	7	7	9	6	8	11	11	11	14
General and administrative	6	6	7	5	7	8	8	7	8
Total costs and expenses	53	49	54	40	47	55	57	52	64
Income from operations	47	51	46	60	53	45	43	48	36
Net income	28%	30%	28%	34%	32%	27%	24%	27%	19%

(1) Costs and expenses include share-based compensation expense as follows:

	Three Months Ended								
	Mar 31, 2010	**Jun 30, 2010**	**Sep 30, 2010**	**Dec 31, 2010**	**Mar 31, 2011**	**Jun 30, 2011**	**Sep 30, 2011**	**Dec 31, 2011**	**Mar 31, 2012**
	(as a percentage of total revenue)								
Cost of revenue	%	%	%	%	%	%	%	%	%
Marketing and sales						1	2	1	2
Research and development	1				1	4	3	4	6
General and administrative	1					2	2	1	2
Total share-based compensation	1%	1%	1%	1%	1%	7%	7%	7%	10%

Quarterly Trends

Revenue

Advertising spending is traditionally seasonally strong in the fourth quarter of each year. We believe that this seasonality in advertising spending affects our quarterly results, which generally reflect strong growth in advertising revenue between the third and fourth quarters and slower growth, and for certain years a decline, in advertising spending between the fourth and subsequent first quarters. For instance, our advertising revenue increased 64%, 46%, and 18% between the third and fourth quarters of 2009, 2010, and 2011, respectively, while advertising revenue in the first quarter of 2010 increased 5% as compared to the fourth quarter of 2009 and advertising revenue for the first quarter of 2011 and 2012 declined 3% and 8% compared to the fourth quarters of 2010 and 2011, respectively. The rapid growth in our business may have partially masked these seasonal trends to date and the seasonal impacts may be more pronounced in the future.

Cost of revenue and operating expenses

Cost of revenue and operating expenses increased during every quarter presented, primarily due to increased expenses related to the continued expansion of our technical infrastructure and increases in employee headcount.

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The increases in marketing and sales, research and development, and general and administrative expenses in the 2011 quarterly periods also reflect significant increases for share-based compensation expense related to Post-2011 RSUs.

For additional information on matters that may affect our quarterly results, see Risk Factors Our financial results will fluctuate from quarter to quarter, which makes them difficult to predict.

Liquidity and Capital Resources

	Year Ended December 31,			Three Months Ended March 31,	
	2009	2010	2011	2011	2012
			(in millions)		
Consolidated Statements of Cash Flows Data:					
Net cash provided by operating activities	$ 155	$ 698	$ 1,549	$ 345	$ 441
Net cash used in investing activities	(62)	(324)	(3,023)	(153)	(720)
Net cash provided by financing activities	243	781	1,198	798	50
Purchases of property and equipment	(33)	(293)	(606)	(153)	(453)
Depreciation and amortization	78	139	323	51	110
Share-based compensation	27	20	217	7	103

Our principal sources of liquidity are our cash and cash equivalents, marketable securities, and cash generated from operations. Cash and cash equivalents and marketable securities consist primarily of cash on deposit with banks and investments in money market funds and U.S. government and U.S. government agency securities. Cash and cash equivalents and marketable securities totaled $3,910 million as of March 31, 2012, an increase of $2 million from December 31, 2011. The most significant cash flow activities consisted of $441 million of cash generated from operations, offset by $453 million used for capital expenditures. Cash and cash equivalents and marketable securities totaled $3,908 million as of December 31, 2011, an increase of $2,123 million from December 31, 2010. This increase primarily reflects $1,549 million of cash generated from operations and $998 million of proceeds from the sale of common stock, partially offset by $606 million used for capital expenditures and repayment of a $250 million credit facility. We currently anticipate that our available funds, credit facilities, and cash flow from operations will be sufficient to meet our operational cash needs for the foreseeable future.

In April 2012, we entered into an agreement to acquire Instagram, Inc., which has built a mobile phone-based photo-sharing service, for 22,999,412 shares of our common stock and $300 million in cash. The value of the equity component of the final purchase price will be determined for accounting purposes based on the fair value of our common stock on the closing date and it is possible that the per share price of our common stock on that date could be significantly higher or lower than the initial public offering price. Following the closing of this acquisition, we plan to maintain Instagram s products as independent mobile applications to enhance our photos product offerings and to enable users to increase their levels of mobile engagement and photo sharing. This acquisition is subject to customary closing conditions, including the expiration or early termination of all applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvement Act of 1976, as amended (HSR), and is currently expected to close in the second quarter of 2012. We have agreed to pay Instagram a $200 million termination fee if governmental authorities permanently enjoin or otherwise prevent the completion of the merger or if either party terminates the agreement after December 10, 2012.

Also, in April 2012, we entered into an agreement with Microsoft Corporation pursuant to which we will be assigned Microsoft s rights to acquire approximately 615 U.S. patents and patent applications and their foreign counterparts, consisting of approximately 170 foreign patents and patent applications, that are subject to the agreement between AOL Inc. and Microsoft entered into on April 5, 2012, in exchange for a total cash payment of approximately $550 million. As part of this transaction, we will obtain a non-exclusive license to the other

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AOL patents and patent applications being purchased by Microsoft and will grant Microsoft a non-exclusive license to the AOL patents and patent applications that we are acquiring. In addition, we will be assigned Microsoft s rights to acquire the outstanding shares of a wholly-owned, non-operating subsidiary of AOL that holds a portion of the aforementioned patents and patent applications. The transaction is subject to the closing of Microsoft s transaction with AOL as well as customary closing conditions, including the expiration or early termination of all applicable waiting periods under HSR.

Pre-2011 RSUs vest upon the satisfaction of both a service condition and a liquidity condition. The liquidity condition will be satisfied six months following our initial public offering. Under settlement procedures applicable to these awards, we are permitted to deliver the underlying shares within 30 days before or after the date on which the liquidity condition is satisfied. As a result, we expect that a portion of these RSUs that are held by our directors and then current employees will be settled on a date that is 151 to 180 days after the date of this prospectus. In addition, a portion of these RSUs that are held by former employees will be settled approximately 181 days after the date of this prospectus. On the settlement dates, we plan to withhold and remit income taxes at applicable minimum statutory rates based on the then current value of the underlying shares. We currently expect that the average of these withholding tax rates will be approximately 45%. If the price of our common stock at the time of settlement were equal to the midpoint of the price range on the cover page of this prospectus, and based on Pre-2011 RSUs outstanding as of March 31, 2012 for which the service condition will be satisfied as of the date of settlement, we estimate that this tax obligation would be approximately $4 billion in the aggregate. The amount of this obligation could be higher or lower, depending on the price of our shares on the RSU settlement date. To settle these RSUs, assuming an approximate 45% tax withholding rate, we anticipate that we will net settle the awards by delivering an aggregate of approximately 155 million shares of Class B common stock to RSU holders and withholding an aggregate of approximately 122 million shares of Class B common stock. In connection with these net settlements we will withhold and remit the tax liabilities on behalf of the RSU holders to the relevant tax authorities in cash.

To fund the withholding and remittance obligations, we expect to sell equity securities near the initial settlement date in an amount substantially equivalent to the number of shares of common stock that we withhold in connection with these net settlements, such that the newly issued shares should not be dilutive. However, in the event that we issue equity securities, we cannot assure you that we will be able to successfully match the proceeds to the amount of this tax liability. If we elect not to fully fund tax withholding and remittance obligations through the issuance of equity or we are unable to complete such an offering due to market conditions or otherwise, we may choose to borrow funds from our credit facilities, use a substantial portion of our existing cash, or rely upon a combination of these alternatives.

In 2011, we entered into an agreement for an unsecured five-year revolving credit facility that allowed us to borrow up to $2,500 million, with interest payable on borrowed amounts set at the London Interbank Offered Rate (LIBOR) plus 1.0%. In February 2012, we terminated this credit facility and we entered into a new agreement for an unsecured five-year revolving credit facility that allows us to borrow up to $5,000 million for general corporate purposes, with interest payable on the borrowed amounts set at LIBOR plus 1.0%. Prior to our initial public offering, we can borrow up to $2,500 million under this facility. We paid origination fees at closing and these fees are amortized over the remaining term of the credit facility. Under the terms of the new agreement, we are obligated to pay a commitment fee of 0.10% per annum on the daily undrawn balance. No amounts were drawn down under this agreement as of March 31, 2012.

Concurrent with our entering into the new revolving credit facility, we also entered into a bridge credit facility that allows us to borrow up to $3,000 million to fund tax withholding and remittance obligations related to the settlement of RSUs in connection with our initial public offering, with interest payable on the borrowed amounts set at LIBOR plus 1.0% and an additional 0.25% payable on drawn balances outstanding from and after the 180th day of borrowing. We may make a single borrowing under this bridge facility beginning on the closing date of our initial public offering and ending on the date that is 240 days after that date. Any amounts outstanding under this facility will be due one year after the date we draw on the facility but no later than June 30, 2014. During the term of this bridge facility, the lenders commitments are subject to reduction and amounts borrowed thereunder are subject to repayment in the event we raise capital through certain asset sales, debt issuances, or equity issuances. We paid origination fees at closing and these fees are amortized over the remaining term of the facility, and we are obligated to pay an additional upfront fee of 0.20% of the aggregate amount of the borrowings requested on any applicable funding date. Under the terms of the agreement, we are obligated to pay a commitment fee of 0.10% per annum on the daily undrawn balance from and after the 90th day following the date we entered into the bridge facility No amounts were drawn down under this agreement as of March 31, 2012.

As of March 31, 2012, $486 million of the $3,910 million in cash and cash equivalents and marketable securities was held by our foreign subsidiaries. We have provided for the additional taxes that would be due if we repatriated these funds for use in our operations in the United States.

Cash provided by operating activities

Cash flow from operating activities during the first quarter of 2012 primarily consisted of net income of $205 million, adjusted for certain non-cash items, including total depreciation and amortization of $110 million, and share-based compensation expense of $103 million. The increase in cash flow from operating activities during the first quarter of 2012 compared to the same period in 2011 was mainly due to an increase in net income as adjusted for non-cash items such as depreciation, amortization, and share-based compensation.

Cash flow from operating activities during 2011 primarily resulted from net income of $1,000 million, adjusted for certain non-cash items, including total depreciation and amortization of $323 million, and share-based compensation expense of $217 million.

Cash flow from operating activities during 2010 primarily resulted from net income of $606 million, adjusted for certain non-cash items, including total depreciation and amortization of $139 million and share-based compensation expense of $20 million, partially offset by cash consumed by working capital of $70 million.

Cash flow from operating activities during 2009 primarily resulted from net income of $229 million, adjusted for certain non-cash items, including total depreciation and amortization of $78 million and share-based compensation of $27 million, partially offset by cash consumed by working capital of $179 million.

Cash used in investing activities

Cash used in investing activities during the first quarter of 2012 primarily resulted from capital expenditures of $453 million related to the purchase of servers, networking equipment, storage infrastructure, and the construction of data centers as well as $240 million for the net purchase of marketable securities. The increase in cash used in investing activities during the first quarter of 2012 compared to the same period in 2011 was mainly due to increases in capital expenditures and the purchase of marketable securities which were not in our investment portfolio in the prior period.

Cash used in investing activities during 2011 primarily resulted from the use of approximately $2,396 million for the net purchase of marketable securities. Our cash used in investing activities in 2011 also consisted of capital expenditures of $606 million related to the purchase of servers, networking equipment, storage infrastructure, and the construction of data centers.

Cash used in investing activities during 2010 and 2009 primarily consisted of capital expenditures related to the purchases of property and equipment and the construction of data centers. Changes in restricted cash and deposits consumed $9 million and $32 million of cash related to security deposits in support of real estate expansion in 2010 and 2009, respectively. Acquisitions, net of cash acquired, also consumed $22 million of cash in 2010.

We anticipate making capital expenditures in 2012 of approximately $1.6 billion to $1.8 billion, a portion of which we will finance through leasing arrangements. We also anticipate spending $300 million in cash as part of the purchase price for the acquisition of Instagram and approximately $550 million in cash in exchange for the

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assignment of Microsoft Corporation s rights to acquire certain patent assets of AOL Inc. as well as the entity holding a portion of those assets.

Cash provided by financing activities

Our financing activities have primarily consisted of equity issuances, lease financing, and debt financing. Net cash provided by financing activities was $50 million and $798 million, respectively, for the first quarters of 2012 and 2011, and $1,198 million, $781 million, and $243 million, respectively, for 2011, 2010, and 2009. This includes excess tax benefits from stock award activities of $54 million, $69 million, $433 million, $115 million, and $51 million, respectively.

In January 2011, we completed an offering of our Class A common stock to certain non-U.S. investors that generated $998 million in net proceeds. In December 2010, we completed an offering of our Class A common stock that generated $500 million in proceeds. In May 2009, we completed an offering of Series E preferred stock that generated $200 million in proceeds.

In March 2010, we entered into a credit facility with certain lenders. This facility allowed for the drawdown of up to $250 million in unsecured senior loans. In April 2010, we drew down the full amount available under the facility, and in March 2011, we repaid the entire $250 million balance.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements in the first quarter of 2012, or in 2011, 2010, or 2009.

Contingencies

We are involved in claims, lawsuits, government investigations, and proceedings arising from the ordinary course of our business. We record a provision for a liability when we believe that it is both probable that a liability has been incurred, and the amount can be reasonably estimated. Significant judgment is required to determine both probability and the estimated amount. Such legal proceedings are inherently unpredictable and subject to significant uncertainties, some of which are beyond our control. Should any of these estimates and assumptions change or prove to be incorrect, it could have a material impact on our results of operations, financial position, and cash flows.

Commitments

Our principal commitments consist of obligations under capital and operating leases for equipment and office and data center facilities. The following table summarizes our commitments to settle contractual obligations in cash as of December 31, 2011.

		Payment Due by Period			
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating lease obligations	$ 945	$ 180	$ 243	$ 197	$ 325
Capital lease obligations	817	322	337	28	130
Other contractual commitments[1]	500	450	25	25	
Total contractual obligations	$ 2,262	$ 952	$ 605	$ 250	$ 455

(1) Other contractual commitments primarily relate to equipment and supplies for our data center operations, and to a lesser extent, construction of our data center sites.

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In addition, our other liabilities include $60 million related to uncertain tax positions as of December 31, 2011. Due to uncertainties in the timing of the completion of tax audits, the timing of the resolution of these positions is uncertain and we are unable to make a reasonably reliable estimate of the timing of payments in individual years beyond 12 months. As a result, this amount is not included in the above table.

Recently Issued and Adopted Accounting Pronouncements

Comprehensive Income

In May 2011, the Financial Accounting Standards Board issued guidance that changed the requirement for presenting Comprehensive Income in the consolidated financial statements. The update requires an entity to present the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and should be applied retrospectively. We adopted this new guidance on January 1, 2012.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures. 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 experience and on various other assumptions that we believe are reasonable under the circumstances. On an ongoing basis, we evaluate our estimates and assumptions. Our actual results may differ from these estimates under different assumptions or conditions.

We believe that of our significant accounting policies, which are described in note 1 to our consolidated financial statements, the following accounting policies involve a greater degree of judgment and complexity. Accordingly, these are the policies we believe are the most critical to aid in fully understanding and evaluating our financial condition and results of operations.

Revenue Recognition for Payments and Other Fees

We enable Payments from our users to our Platform developers. Our users can make payments on the Facebook Platform by using credit cards or other payment methods available on our website. The primary process for these transactions is through the purchase of our virtual currency. Our users then use this virtual currency to purchase virtual and digital goods in games and apps from developers on the Facebook Platform. Upon the initial sale of the virtual currency, we record consideration received from a user as a deposit.

When a user engages in a payment transaction utilizing the virtual currency for the purchase of a virtual or digital good from a Platform developer, we reduce the virtual currency balance of the user by the price of the purchase, which is a price that is solely determined by the Platform developer. We remit to the Platform developer an amount that is based on the total amount of virtual currency redeemed less the processing fee that we charge the Platform developer for the service performed. Our revenue is the net amount of the transaction representing our processing fee for the transaction. We record revenue on a net basis as we do not consider ourselves to be the principal in the sale of the virtual or digital good to the user. Under GAAP guidance related to reporting revenue gross as a principal versus net as an agent, the indicators used to determine whether an entity is a principal or an agent to a transaction are subject to judgment. We consider ourselves the agent to these transactions when we apply the indicators to our facts. Should material subsequent changes in the substance or nature of the transactions with Platform developers result in us being considered the principal in such sales, we would reflect the virtual and digital goods sale as revenue and the amounts paid to the Platform developers as an associated cost. This would have no impact upon our operating income, but our revenue and associated costs would increase by a similar amount.

Income Taxes

We are subject to income taxes in the United States and numerous foreign jurisdictions. Significant judgment is required in determining our provision for income taxes and income tax assets and liabilities, including evaluating uncertainties in the application of accounting principles and complex tax laws.

We record a provision for income taxes for the anticipated tax consequences of the reported results of operations using the asset and liability method. Under this method, we recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to taxable income for the years in which those tax assets and liabilities are expected to be realized or settled. We record a valuation allowance to reduce our deferred tax assets to the net amount that we believe is more likely than not to be realized.

We recognize tax benefits from uncertain tax positions only if we believe that it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. Although we believe that we have adequately reserved for our uncertain tax positions, we can provide no assurance that the final tax outcome of these matters will not be materially different. We make adjustments to these reserves when facts and circumstances change, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made and could have a material impact on our financial condition and operating results. The provision for income taxes includes the effects of any reserves that we believe are appropriate, as well as the related net interest and penalties.

Share-based Compensation

Overview

We have granted RSUs to our employees and members of our board of directors. Pre-2011 RSUs vest upon the satisfaction of both a service condition and a liquidity condition. The service condition for the majority of these awards is satisfied over four years. The liquidity condition is satisfied upon the occurrence of a qualifying event, defined as a change of control transaction or six months following the effective date of an initial public offering. Under the terms of our 2005 Stock Plan, the shares underlying RSUs that satisfy both of these conditions are to be delivered to holders six months following our initial public offering.

Post-2011 RSUs are not subject to a liquidity condition in order to vest. The majority of Post-2011 RSUs are earned over a service period of four or five years.

Share-based Compensation Expense

We account for share-based employee compensation plans under the fair value recognition and measurement provisions in accordance with applicable accounting standards, which require all share-based payments to employees, including grants of stock options and RSUs, to be measured based on the grant-date fair value of the awards.

Share-based compensation expense is recorded net of estimated forfeitures in our consolidated statements of income and as such is recorded for only those share-based awards that we expect to vest. We estimate the forfeiture rate based on historical forfeitures of equity awards and adjust the rate to reflect changes in facts and circumstances, if any. We will revise our estimated forfeiture rate if actual forfeitures differ from our initial estimates. We record share-based compensation expense for service-based equity awards such as stock options,

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restricted shares, and Post-2011 RSUs using the straight-line attribution method over the period during which the employee is required to perform service in exchange for the award. We record share-based compensation expense for performance-based equity awards such as Pre-2011 RSUs using the accelerated attribution method. Upon the effectiveness of our initial public offering, we will recognize a significant cumulative share-based compensation expense for the portion of the Pre-2011 RSUs that had met the service condition as of that date.

We have historically issued unvested restricted shares to employee stockholders of certain acquired companies. As these awards are generally subject to continued post-acquisition employment, we have accounted for them as post-acquisition share-based compensation expense. We recognize compensation expense equal to the grant date fair value of the common stock on a straight-line basis over the employee s required service period, net of estimated forfeitures.

We capitalize share-based employee compensation expense when appropriate. We did not capitalize any share-based compensation expense in the first quarter of 2012 or in the three years ended December 31, 2011.

As of March 31, 2012, no share-based compensation expense had been recognized for Pre-2011 RSUs because the qualifying events described above had not occurred. In the quarter in which our initial public offering is completed, we will begin recording share-based compensation expense using the accelerated attribution method net of forfeitures based on the grant date fair value of the Pre-2011 RSUs. For Pre-2011 RSUs, if our initial public offering had occurred on March 31, 2012, we would have recognized $965 million of cumulative share-based compensation expense on that date.

The following table summarizes, on a pro forma basis, the number of vested and unvested Pre-2011 RSUs outstanding at March 31, 2012 and the share-based compensation expense related to Pre-2011 RSUs that we would have incurred, assuming our initial public offering had occurred on March 31, 2012.

Vested Pre-2011 RSUs as of Mar 31, 2012(1)	Unvested Pre-2011 RSUs as of Mar 31, 2012(2)	Pro Forma Share-based Compensation Expense
(in thousands)		(in millions)
240,457	84,590	$965

(1) For purposes of this table, Vested RSUs include those RSUs for which the service condition had been fulfilled as of March 31, 2012.
(2) For purposes of this table, Unvested RSUs include those RSUs for which the service condition had not been fulfilled as of March 31, 2012 and exclude an estimate of forfeited RSUs.

This table is based on Pre-2011 RSUs outstanding as of March 31, 2012 and is intended to be illustrative only. The actual timing of compensation expense we will recognize related to outstanding Pre-2011 RSU awards will depend on the date of the closing of our initial public offering. The actual amount of compensation expense we will incur will vary because the service condition of additional RSUs will be fulfilled between March 31, 2012 and the closing date of our initial public offering.

We estimate that the remaining unrecognized share-based compensation expense relating to Pre-2011 RSUs would be approximately $235 million, after giving effect to estimated forfeitures and would be recognized in the remainder of 2012 and thereafter as shown on the table below, if our initial public offering had occurred on March 31, 2012.

In addition, as of March 31, 2012, we had 53 million Post-2011 RSUs outstanding. For these Post-2011 RSUs, $97 million in expense was recognized in the first quarter of 2012 and, after giving effect to estimated forfeitures, a remaining $1,119 million will be recognized in the remainder of 2012 and thereafter as shown in the table below. This table estimates future share-based compensation expense related to all outstanding equity grants, consisting of RSUs, restricted shares, and stock options through March 31, 2012. The table does not take into account any share-based compensation expense related to future awards that may be granted to employees, directors, or other service providers. Additionally, the amounts in the table include an estimate of unvested

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awards that may be forfeited in future periods due to the departure of employees or directors. Our forfeiture estimates are subject to adjustment based on actual experience.

	Remainder of 2012	2013	2014	2015	Beyond 2015
			(in millions)		
Pre-2011 RSUs[(1)(2)]	$ 107	$ 79	$ 31	$ 8	$ 10
Post-2011 RSUs[(3)]	215	289	291	240	84
Restricted shares	10	11	10	3	
Stock options	6	7	5	4	6
Total	$ 338	$ 386	$ 337	$ 255	$ 100

(1) Assumes our initial public offering was completed on March 31, 2012.
(2) Excludes the estimated $965 million expense related to Pre-2011 RSUs for which the service condition had been achieved as of March 31, 2012 and which would have been incurred assuming our initial public offering had occurred on March 31, 2012.
(3) Does not reflect the share-based compensation expense that we will incur in future periods in connection with the grant of an aggregate of 25,257,815 Post-2011 RSUs on May 3, 2012.

The aggregate intrinsic value of vested and unvested stock options and vested and unvested RSUs as of March 31, 2012, based on an assumed initial public offering price of $31.50 per share, the midpoint of the price range set forth on the cover of this prospectus, was $7,019 million, $323 million, $7,764 million, and $4,157 million, respectively.

We estimated the fair value of stock option awards included in the table above using the Black-Scholes-Merton single option-valuation model, which requires inputs such as expected term, expected volatility, and risk-free interest rate. The estimated forfeiture rate of stock option awards also affects the amount of aggregate compensation expense we will incur. These inputs are subjective and generally require significant analysis and judgment to develop.

We estimate the expected term for stock option awards based upon the historical behavior of our employees. The expected volatility is based on a study of publicly traded industry peer companies. The forfeiture rate is derived primarily from our historical data, and the risk-free interest rate is based on the yield available on U.S. Treasury zero-coupon issues. Our dividend yield is 0%, since we have not paid, and do not expect to pay, dividends.

We estimated the fair value of employee stock options granted in 2009 and 2010 as of the date of the grant using the following weighted-average assumptions:

	Year Ended December 31,	
	2009	2010
Expected term from grant date (in years)	5.04	7.15
Risk-free interest rate	2.01%	1.69%
Expected volatility	0.57	0.46
Dividend yield		

The weighted-average grant date fair value of employee stock options granted during 2009 and 2010 was $1.12 and $5.26, respectively, per share. We did not grant any stock options in 2011 or in the first quarter of 2012.

Tax Withholding and Remittance Obligations

We estimate that an aggregate of approximately 277 million shares underlying Pre-2011 RSUs will settle on dates that are 151 to 181 days after the date of this prospectus, based on Pre-2011 RSUs outstanding as of March 31, 2012 for which the service condition will be satisfied as of the dates of settlement. In addition, we estimate that an additional approximately 3 million Pre-2011 RSUs will settle following such dates through the end of 2012. We estimate that an aggregate of approximately 56 million Pre-2011 RSUs and Post-2011 RSUs will settle in 2013.

RSU holders generally will recognize taxable income based upon the value of the shares on the date they are settled and we are required to withhold taxes on such value at applicable minimum statutory rates. We currently expect that the average of these withholding rates will be approximately 45%. For additional information on our tax withholding and remittance obligations related to RSU vesting, see Liquidity and Capital Resources above.

Corporate Income Taxes

The RSU activity discussed above, as well as activity from other equity awards including stock options, will also have corporate income tax effects. The most significant effect is that the settlement of awards or exercise of nonstatutory stock options generates a corporate income tax deduction that will reduce our U.S. corporate income tax liability. The exercise of incentive stock options (ISOs) may also result in a corporate income tax deduction, but only in certain circumstances where the holder of the ISOs also sells the acquired shares in a disqualifying disposition. The amount of this corporate income tax deduction will be based on the value of shares at the exercise or settlement date, which differs from the value of the shares at the grant date that is used to determine the share-based compensation expense. Depending on the value of the shares on the date the equity awards are settled or options are exercised, we could generate a corporate income tax deduction that exceeds our other U.S. taxable income in that year, which would result in a taxable loss for U.S. corporate income tax purposes that reduces our U.S. corporate income tax liability to an immaterial amount for that year. In 2012, we expect to settle approximately 280 million RSUs. In addition, as of March 31, 2012, we had vested nonstatutory options outstanding to purchase approximately 185 million shares of our Class B common stock. As of March 31, 2012, we also had vested ISOs outstanding to purchase approximately 40 million shares of our Class B common stock, but given the uncertainty in predicting whether the ISO holders will choose to make disqualifying dispositions, we are assuming that no corporate income tax deductions will be generated by these ISOs. Assuming all of these vested nonstatutory stock options are exercised during 2012 and assuming the value of our Class B common stock at settlement or upon option exercise is the midpoint of the price range on the cover page of this prospectus, we estimate that this settlement and option exercise activity by U.S. employees would generate a corporate income tax deduction of approximately $14 billion. The amount that this deduction exceeds our other U.S. taxable income will result in a net operating loss (NOL) that can be carried back to the preceding two years to offset our taxable income for U.S. federal income tax purposes, as well as in some states, which would allow us to receive a refund of some of the corporate income taxes we paid in those years. Based on the assumptions above, we anticipate that this refund could be up to $500 million and payable to us during the first six months of 2013. Any portion of the NOL remaining after this carryback would be carried forward to offset our other U.S. taxable income generated in future years, which taxable income will also be reduced by deductions generated from new stock award settlement and stock option exercise activity occurring in those future years.

Utilization of our NOL carryforwards may be subject to annual limitations due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such annual limitations could result in the expiration of the NOL carryforwards before their utilization. The events that may cause ownership changes include, but are not limited to, a cumulative stock ownership change of greater than 50% over a three-year period.

The corporate income tax deductions generated by this settlement and exercise activity described above do not reduce our effective tax rate reflected in our consolidated statements of income. Our provision for income taxes reflects the tax benefits that are recorded at the time the share-based compensation is initially recognized as an expense, which is based on the fair value of shares at grant date, and is different than the corporate income tax deduction, which is based on the value of shares at settlement or at exercise. If the reduction in our corporate income tax liability from settlements and exercises is greater than the tax benefits that we recognized when the share-based compensation expense was initially recorded, which will generally occur if our share price has appreciated between grant date and settlement or exercise date, this will create an excess tax benefit that is recorded as a component of additional paid-in capital and not as a reduction of our provision for income taxes in

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our consolidated statements of income. The timing in which these excess tax benefits are reflected on our balance sheet generally matches the timing in which the reduction in prior or future income tax liability occurs. Thus, if we have these types of NOLs remaining after any carryback claims, we would not record a deferred tax asset for such NOLs, but rather we would record an adjustment to additional paid-in capital and a reduction to our corporate income tax liability during the period in which those NOLs are used to reduce our corporate income tax liability. These excess tax benefits would be recorded in our statements of cash flows as cash provided by financing activities.

Valuation of Our Common Stock

The valuations of our Class B common stock were determined in accordance with the guidelines outlined in the American Institute of Certified Public Accountants Practice Aid, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*. We considered numerous objective and subjective factors to determine our best estimate of the fair value of our Class B common stock, including but not limited to, the following factors:

- recent private stock sale transactions;
- our historical financial results and estimated trends and prospects for our future financial performance;
- our performance and market position relative to our competitors and/or similar publicly traded companies;
- the economic and competitive environment, including the industry in which we operate; and
- independent third-party valuations completed as of the end of each quarter.

We have granted the following RSUs since January 1, 2011:

Grant Date	Shares Underlying RSUs (thousands)	Grant Date Fair Value	Aggregate Grant Date Fair Value (millions)
2011			
First Quarter			
February 16, 2011	2,022	$ 24.10	$ 49
March 25, 2011	40,006	25.43	1,017
Second Quarter			
May 11, 2011	2,580	27.58	71
June 6, 2011	1,643	28.88	47
June 22, 2011	1,010	29.67	30
Third Quarter			
July 21, 2011	2,898	30.07	87
September 1, 2011	1,426	30.07	43
September 6, 2011	20	30.07	1
September 22, 2011	1,649	30.07	50

Fourth Quarter			
November 11, 2011	670	29.91	20
December 22, 2011	1,202	29.76	36
2012			
First Quarter			
January 12, 2012	944	30.18	28
January 27, 2012	1,003	30.73	31

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Through the first quarter of 2012, we conducted valuations of our Class B common stock that took into account the factors described above and used a combination of financial and market-based methodologies to determine our business enterprise value (BEV) including the following approaches:

Discounted Cash Flow Method (DCFM). DCFM involves estimating the future cash flows of a business for a certain discrete period and discounting such cash flows to present value. If the cash flows are expected to continue beyond the discrete time period, then a terminal value of the business is estimated and discounted to present value. The discount rate reflects the risks inherent in the cash flows and the market rates of return available from alternative investments of similar type and quality as of the valuation date.

Guideline Public Company Method (GPCM). GPCM assumes that businesses operating in the same industry will share similar characteristics and that the subject business s value will correlate to those characteristics. Therefore, a comparison of the subject business to similar businesses whose financial information and public market value are available may provide a reasonable basis to estimate the subject business s value. The GPCM provides an estimate of value using multiples derived from the stock prices of publicly traded companies. In selecting guideline public companies for this analysis, we focused primarily on quantitative considerations, such as financial performance and other quantifiable data, as well as qualitative considerations, such as industry and economic drivers.