U.S. TAX COURT
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U.S. TAX COURT
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UNITED STATES TAX COURT

FACEBOOK, INC. & SUBSIDIARIES,

Petitioner,

v.

COMMISSIONER OF INTERNAL REVENUE,

Respondent.

Docket No. 21959-16

PETITION

Facebook, Inc. ("Facebook") and Subsidiaries hereby petitions for a redetermination of the deficiencies in income tax for the taxable year ended December 31, 2010 ("2010") determined by the Commissioner of Internal Revenue ("Respondent") in a Notice of Deficiency dated July 26, 2016 (the "Notice"). As a basis for its case, Facebook alleges as follows:

1. **Petitioner**. Facebook is a corporation organized under the laws of the State of Delaware. Facebook's principal place of business is 1601 Willow Road, Menlo Park, California, 94025. Facebook timely filed its federal income tax return for 2010 electronically.

Address Used By Court

2. **Notice of Deficiency**. The Notice (a copy of which is attached) was mailed to Facebook on or about July 26, 2016, by the Small Business/Self-

Appendix 1

SERVED Oct 13 2016

Employed division of the Internal Revenue Service at 55 South Market Street, San Jose, California, 95113.

3. **Amount in Dispute**. In the Notice, Respondent determined a deficiency in the amount of $1,733,335 for 2010. The entire amount of the deficiency is in dispute.

The Court's determinations with respect to the assignments of error alleged in Paragraph 4., *infra*, will require redetermination of various correlative and computational adjustments made in the Notice in accordance with Tax Ct. R. 155.

4. **Assignments of Error**. Respondent's determination of a deficiency is based upon the following errors:

4.a. **INCOME FROM THE LICENSE OF INTANGIBLE PROPERTY.**

Respondent erred in increasing Facebook's gross royalty income contrary to section 482,[1] Treas. Reg. § 1.482-4, and Treas. Reg. § 1.482-7T in the amount of $84,915,248 for 2010, with respect to the intangible property made available by Facebook to Facebook Ireland Holdings Unlimited ("Facebook Ireland") effective as of September 15, 2010. Respondent's income allocation ignores the arm's length standard of section 482 and the regulations promulgated thereunder. Respondent's income allocation is arbitrary, capricious, or unreasonable.

[1] All references to "section" or "Code" refer to the Internal Revenue Code of 1986, as amended.

4.b. **COST SHARING PAYMENT ADJUSTMENT.**

Respondent erred in adjusting Facebook's reasonably anticipated benefits ("RAB") share and incorrectly allocating intangible development costs between Facebook and Facebook Ireland contrary to section 482 in the amount of $5,390,144. Respondent's adjustment to Facebook's RAB share violates the arm's length standard of section 482 and is arbitrary, capricious, or unreasonable.

4.c. **DOMESTIC PRODUCTION ACTIVITIES DEDUCTION.**

Respondent erred in decreasing Facebook's domestic production activities deduction ("DPAD") by $6,003,887 for 2010 contrary to section 199.

4.d. **CREDIT FOR INCREASING RESEARCH ACTIVITIES.**

Respondent erred in decreasing Facebook's credit for increasing research activities ("research credit") by $7,156,209 for 2010 contrary to section 41.

4.e. **NET OPERATING LOSS DEDUCTIONS.**

As a result of the errors sets forth in paragraphs 4.a. and 4.b., which are incorporated here by reference, Respondent erred in increasing the amount of Facebook's utilized Net Operating Loss ("NOL") carryover deduction by $90,305,392 in 2010.

5. **Supporting Facts**. Facebook relies on the following facts as the basis for this proceeding:

5.a. INCOME FROM THE LICENSE OF INTANGIBLE PROPERTY.

Overview of Facebook's Business and Industry

5.a.1. Facebook's mission is to give people the power to share and make the world more open and connected. As of 2010, Facebook developed and operated Facebook.com, a website that enabled people to interact with other people they know in a trusted environment.

5.a.2. Since 2006, anyone, anywhere in the world, over the age of 13, subject to local laws, can register to use Facebook, free of charge.

5.a.3. Any person registered to use Facebook can deactivate or delete his or her Facebook account at any time.

5.a.4. In 2010, people primarily accessed Facebook through the internet from a desktop computer.

5.a.5. During the period prior to September 15, 2010, the numbers of total monthly active users ("MAUs")[2] (in millions) of Facebook by region were as follows:

[2] MAUs refer to the number of people who have logged in and visited Facebook, or took an action to share content or activities with their Facebook friends or connections via third-party websites that are integrated with Facebook in the last 30 days as of the date of measurement.

Date	North America	Rest of World	Total
January 18, 2009	55	101	156
March 31, 2009	68	129	197
June 30, 2009	81	161	242
Sept. 30, 2009	99	206	305
Dec. 31, 2009	112	248	360
March 31, 2010	130	301	431
June 30, 2010	137	345	482
September 14, 2010	146	392	538

5.a.6. As of 2010, Facebook earned revenue from (1) advertisers displaying ads to people using Facebook from a desktop computer and (2) third-party developers who developed their own products or services for Facebook users.

5.a.7. As of 2010, Facebook did not display ads to people who accessed Facebook from mobile devices.

5.a.8. As of 2010, Facebook did not earn any revenue by selling ads displayed to people when they accessed Facebook through mobile devices.

Facebook's International Headquarters: Facebook Ireland

5.a.9. In 2008, Facebook decided to establish in Dublin, Ireland, its headquarters for the Facebook business outside North America.

5.a.10. In connection with the establishment of Facebook Ireland, Facebook and Facebook Ireland entered into an Intangible Property License Agreement effective as of January 19, 2009 (the "2009 IP License").

5.a.11. Pursuant to the 2009 IP License, Facebook granted to Facebook Ireland a non-exclusive license to use the "Facebook System" to develop, promote, expand, maintain, and monetize the users, advertisers, and developers outside North America ("Facebook Ireland's territory").

5.a.12. The 2009 IP License defined the "Facebook System" as the system that "facilitates the sharing of data about users, advertisers and developers, scales to accommodate the amount of data transferred, delivers advertising to user pages, provides an application development platform, and any related processes or technology that relates to Facebook facilitating communication between users and serving advertising that utilize, embody or incorporate, or are created or produced using, Covered Intangibles."

5.a.13. The 2009 IP License defined "Covered Intangibles" as the "technologies, procedures, processes, designs and design rights, inventions, discoveries, know-how, patents (including patent applications pending before any relevant authority worldwide, with any additions, continuations, continuations-in-part, divisions, reissues or extensions based thereon), copyrights (and other rights of authorship), trade secrets, computer programs (in source code and object code

form), flow charts, formulae, enhancements, updates, translations, adaptations, information, specifications, designs, process technology, quality control standards, and any other similar intangible property owned or licensed in, in whole or in part, by [Facebook], including any intangible property developed as a part of in-process and future research and development."

5.a.14. Between January 19, 2009 and September 14, 2010, Facebook Ireland, at its expense, grew the user base in its territory from 101 million MAUs to 392 million MAUs.

5.a.15. The 2009 IP License was terminated effective as of September 15, 2010.

Online Platform Intangible Property Buy-In License Agreement

5.a.16. Facebook and Facebook Ireland entered into the Online Platform Intangible Property Buy-In License Agreement ("PCT Agreement") effective as of September 15, 2010.

5.a.17. Pursuant to the PCT Agreement, Facebook granted to Facebook Ireland an exclusive license to the "Facebook US PCT Property" in Facebook Ireland's territory.

5.a.18. The PCT Agreement defined "Facebook US PCT Property" as all "Intangible Property, including computer software, relating to the

Facebook Online Platform existing and owned or licensed by Facebook US as of [September 15, 2010]."

5.a.19. The PCT Agreement defined "Intangible Property" as any "intellectual property rights, proprietary rights, procedures, processes, know-how, patents (including patent applications pending before any relevant authority worldwide, with any additions, continuations, continuations-in-part, divisions, reissues or extensions based thereon), copyrights (and other rights of authorship), trade secrets, computer software (in source code and object code form), algorithms, flow charts, formulae, enhancements, updates, modifications, translations, adaptations, information, specifications, process technology, and any other similar intangible property as defined under U.S. Treasury Regulation § 1.482-4(b) or rights to such intangible property."

5.a.20. The PCT Agreement defined "Facebook Online Platform" as the "hardware and software system, including all developments, enhancements, and features in existence on [September 15, 2010], which are generally made available by Facebook on the platform or any successor platform, that facilitates the sharing of data between users for social networking purposes, sales of credits and virtual items, development of applications by developers, delivery of targeted advertisements to user pages, and any related processes or technology that relates to facilitating communication and social networking among

users and serving advertisements that utilize, embody or incorporate, or are created or produced using, Intangible Property."

5.a.21. The PCT Agreement specifically excepts any User Base and Marketing Intangibles (as defined below), related to the Facebook Online Platform owned or licensed by Facebook as of September 15, 2010 from the scope of the PCT Agreement.

5.a.22. In exchange for Facebook's grant of rights under the PCT Agreement, Facebook Ireland agreed to pay arm's length royalties contingent on the exploitation of the licensed rights.

5.a.23. Facebook concluded that the net present value of the Facebook US PCT Property as of September 15, 2010 was $1,685,644,726.

User Base Transfer and Marketing Intangibles License Agreement

5.a.24. Facebook and Facebook Ireland entered into the User Base Transfer and Marketing Intangibles License Agreement ("User Base and Marketing License") effective as of September 15, 2010.

5.a.25. Pursuant to the User Base and Marketing License, Facebook transferred the "User Base" in Facebook Ireland's territory as of September 15, 2010 to Facebook Ireland.

5.a.26. The User Base and Marketing License defined "User Base" as "contracts and other relationships with persons comprising the various user communities developed and maintained by the Parties, information about such users, and networks developed by users[.]"

5.a.27. Facebook made the User Base available to third-party developers who developed and sold virtual and digital goods, such as virtual goods used in social games, to those users.

5.a.28. When users purchased virtual and digital goods from third-party developers, Facebook received arm's length fees representing a portion of the transaction value.

5.a.29. Facebook concluded that the net present value of the User Base in Facebook Ireland's territory as of September 15, 2010 was $4,078,192,896.

5.a.30. In exchange for Facebook's grant of rights under the User Base and Marketing License, Facebook Ireland agreed to pay arm's length annual contingent amounts.

5.a.31. Facebook Ireland overvalued the User Base in Facebooks Ireland's territory because Facebook Ireland, at its expense, developed the User Base in its territory from January 19, 2009 through September 14, 2010.

5.a.32. Additionally, pursuant to the User Base and Marketing License, Facebook also granted to Facebook Ireland the non-exclusive right to "Marketing Intangibles" in Facebook Ireland's territory.

5.a.33. The User Base and Marketing License defined "Marketing Intangibles" as any "trademarks, service marks, trade names, trade dress, domain names, business marks, designs, packaging, marketing strategies, customer lists, other marketing information, registrations, pending registrations and copyrights to logos or pictorial depictions, any intangible property associated with any such marks (such as marketing intangibles and brand name quality control standards), and other similar marketing intangible property."

5.a.34. Facebook concluded that an annual contingent royalty of one percent of Facebook Ireland's revenue for the Marketing Intangibles licensed by Facebook to Facebook Ireland was arm's length.

Respondent's Adjustment

5.a.35. On July 26, 2016, Respondent issued the Notice alleging a deficiency of tax in the amount of $1,733,335 for 2010.

5.a.36. According to the Notice, Respondent alleges that the net present value of the intangible property transferred effective September 15, 2010 pursuant to the User Base and Marketing License and the PCT Agreement

was $13,883,630,000, and, as a result, Respondent increased Facebook's gross royalties by $84,915,248 for 2010 (the "License Adjustment").

5.a.37. The Notice does not identify or explain the methodology Respondent used to arrive at its determination of the net present value of the transferred intangible property.

5.a.38. The Notice does not identify or explain how Respondent allocated to 2010, $84,915,248 of the alleged $13,883,630,000 net present value of the transferred intangibles.

5.a.39. Respondent has not provided to Facebook a Form 5701, Notice of Proposed Adjustment relating to the License Adjustment.

5.a.40. Respondent has not provided to Facebook an IRS Economist Report relating to the License Adjustment.

5.a.41. On information and belief, a Form 5701, Notice of Proposed Adjustment, identifying or explaining the methodology for the License Adjustment did not exist at the time Respondent issued the Notice.

5.a.42. On information and belief, an IRS Economist Report identifying or explaining the methodology for the License Adjustment did not exist at the time Respondent issued the Notice.

5.a.43. On information and belief, Respondent issued the Notice without a reasonable basis for the License Adjustment.

5.a.44. On information and belief, the License Adjustment includes an amount for the User Base in Facebook Ireland's territory developed by Facebook Ireland between January 19, 2009 and September 14, 2010.

5.a.45. Respondent made a naked assessment, increasing Facebook's gross royalties in the amount of $84,915,248 for 2010, without providing any legal, factual, or economic support for its adjustment.

5.a.46. Respondent's assessment is arbitrary, capricious, or unreasonable.

5.b. **COST SHARING PAYMENT ADJUSTMENT.**

Agreement to Share Costs and Risks of Online Platform Intangible Property Development

5.b.1. Paragraphs 5.a.1. through 5.a.44., *supra*, are incorporated by reference.

5.b.2. Facebook and Facebook Ireland entered into the Agreement to Share Costs and Risks of Online Platform Intangible Property Development effective as of September 15, 2010 ("CSA").

5.b.3. Pursuant to the CSA, Facebook and Facebook Ireland agreed to jointly develop the intellectual property rights owned by Facebook relating to the Facebook Online Platform in order to provide services to users in each party's territory.

5.b.4. Pursuant to the CSA, Facebook and Facebook Ireland agreed to share the costs of intangible development based on each party's share of reasonably anticipated benefits ("RAB") to be derived from the exploitation of the cost shared intangibles.

5.b.5. Intangible development costs include direct and indirect costs reasonably allocable to the intangible development activity, defined as any improvements, updates, adaptations, or other modifications to, or a complete replacement of, the Facebook Online Platform as used in the parties' online social networking business, but excluding the User Base and Marketing Intangibles.

5.b.6. Each party's RAB share is defined as the ratio of the net present value of the aggregate gross profit of one party divided by the net present value of the aggregate total gross profit of both parties, where gross profit is defined as gross profits in the current fiscal year plus projected gross profits for the two following fiscal years.

5.b.7. In 2010, Facebook and Facebook Ireland collectively incurred a total of $ 102,000,000 in intangible development costs pursuant to the CSA.

5.b.8. In 2010, Facebook's RAB share was 57 percent and Facebook Ireland's RAB share was 43 percent, resulting in a payment by Facebook Ireland to Facebook in the amount of $44,000,000.

Respondent's Adjustment

5.b.9. Respondent increased Facebook's taxable income by $5,390,144 because, according to the Notice, Facebook did not correctly calculate its RAB share.

5.b.10. The Notice does not identify or explain the methodology Respondent used to compute Facebook's RAB share.

5.b.11. Respondent has not provided to Facebook a Form 5701, Notice of Proposed Adjustment relating to Facebook's RAB share.

5.b.12. Respondent has not provided to Facebook an IRS Economist Report relating to Facebook's RAB share.

5.b.13. On information and belief, a Form 5701, Notice of Proposed Adjustment relating to Facebook's RAB share did not exist at the time Respondent issued the Notice.

5.b.14. On information and belief, an IRS Economist Report relating to Facebook's RAB share did not exist at the time Respondent issued the Notice.

5.b.15. Respondent made a naked assessment, increasing Facebook's taxable income in the amount of $5,390,144 for 2010, without providing any legal, factual, or economic support for its adjustment.

5.b.16. Respondent's cost sharing payment adjustment is arbitrary, capricious, or unreasonable.

5.c. **DOMESTIC PRODUCTION ACTIVITIES DEDUCTION.**

5.c.1. Facebook claimed a Domestic Production Activities Deduction ("DPAD") in the amount of $6,003,887 for 2010.

5.c.2. According to the Notice, Respondent alleges that Facebook is not entitled to any DPAD for 2010.

5.c.3. The Notice provides no explanation or basis for Respondent's allegation that Facebook is not entitled to any DPAD for 2010.

5.c.4. Respondent has not provided to Facebook a Form 5701, Notice of Proposed Adjustment relating to Facebook's DPAD claim.

5.c.5. On information and belief, a Form 5701, Notice of Proposed Adjustment relating to Facebook's DPAD claim did not exist at the time Respondent issued the Notice.

5.c.6. Facebook correctly claimed DPAD in the amount of $6,003,887 for 2010.

5.c.7. Respondent made a naked assessment, denying Facebook's DPAD claim in the amount of $6,003,887 for 2010 in its entirety, without providing any legal, factual, or economic support for its adjustment.

5.d. **CREDIT FOR INCREASING RESEARCH ACTIVITIES.**

5.d.1. Facebook generated research credits for 2010 in the amount of $7,156,209.

5.d.2. In a Form 886-A, Explanation of Items, attached to a Form 5701, Notice of Proposed Adjustment, Respondent reduced Facebook's research credits for 2010 by $797,058.

5.d.3. Respondent improperly disallowed Facebook's research credit for 2010 in the amount of $7,156,209.

5.e. **NET OPERATING LOSS DEDUCTIONS.**

5.e.1. Paragraphs 5.a.1 through 5.b.16, *supra*, are incorporated by reference.

5.e.2. As a result of the errors addressed in paragraphs 4.a and 4.b, *supra*, Respondent improperly increased Facebook's NOL deduction utilized in 2010 from $629,226,367 to $719,531,759.

WHEREFORE, Facebook requests that this Court hear this case, determine that no deficiency is due from Facebook and grant Facebook such other and further relief as this Court deems just and proper.

Respectfully submitted,

ADMITTED

Andrew P. Crousore
T.C. No. CA0420

ADMITTED

Jay Cha-young Kim
T.C. No. KC0355

ADMITTED

Scott H. Frewing
T.C. No. FS0327

Baker & McKenzie LLP
660 Hansen Way
Palo Alto, California 94304
(650) 856-2400

Attorneys for Petitioner
Facebook, Inc. & Subsidiaries

Dated: October 11, 2016

EXHIBIT

Internal Revenue Service **Department of the Treasury**

FACEBOOK, INC.
AKA FACEBOOK, INC. & SUBSIDIARIES
ATTENTION: CHIEF FINANCIAL OFFICER, DAVID WEHNER
1601 WILLOW ROAD
MENLO PARK, CA 94025

Department of the Treasury
Internal Revenue Service
Small Business / Self-Employed (SBSE)
55 South Market Street, HQ 4630 90 Day
San Jose, CA 95113-2397

Date: JUL 2 6 2016

Taxpayer Identification Number:
Redacted

Form:
1120

Person to Contact:
Benny Tang

Contact Telephone Number:
(408) 283-1468
(877) 477-9165 (Fax)

Employee Identification Number:
ID # 1000682894

Last Day to File a Petition With the United States Tax Court:

OCT 2 4 2016

CERTIFIED MAIL

FACEBOOK, INC.
AKA FACEBOOK, INC. & SUBSIDIARIES
ATTENTION: CHIEF FINANCIAL OFFICER, DAVID WEHNER
1601 WILLOW ROAD
MENLO PARK, CA 94025

Tax Year Ended	Deficiency: Increase in Tax	Penalty Section(s)
December 31, 2010	$1,733,335.00	

Dear Taxpayers:

Why we are sending you this letter

We determined that you owe additional tax or other amounts, or both, for the tax year or years identified above. This letter is your NOTICE OF DEFICIENCY, as required by law. The enclosed Form 4549-A, Income Tax Discrepancy Adjustments or Form 5278, Statement - Income Tax Changes, shows how we figured the deficiency.

If you wish to challenge this determination

If you want to challenge this determination in court before making any payment, you have 90 days from the date of this letter (150 days if this letter is addressed to you outside of the United States) to file a petition with the United States Tax Court to reconsider the deficiency.

Information you will need

If you have recently sought bankruptcy relief by filing a petition in bankruptcy court, see enclosed Notice 1421, *How Bankruptcy Affects Your Right to File a Petition in Tax Court in Response to a Notice of Deficiency.*

You can get a copy of the rules for filing a petition and a petition form by writing to the following address:

United States Tax Court
400 Second Street, NW
Washington, DC 20217

The Tax Court has a simplified procedure for small tax cases when the amount in dispute for each tax year is $50,000 or less.

If you use this simplified procedure, you cannot challenge the Tax Court's decision. You can get information on the simplified procedure for small cases from the Tax Court by writing to the court at the address above or from the court's internet site at www.ustaxcourt.gov.

If you file a petition for multiple tax years and the dispute for any one or more of the tax years exceeds $50,000, this simplified procedure is not available to you.

The law regarding married couples

The law requires separate notices for husbands and wives. Both must sign and file the petition or each must file a separate, signed petition if this letter is addressed to both husband and wife, and both want to petition the Tax Court.

If only one spouse is in bankruptcy at the time this letter was issued or files a bankruptcy petition after the date of this letter, the bankruptcy automatic stay does not prohibit the spouse who is not in bankruptcy from filing a petition with Tax Court. The bankruptcy automatic stay of the spouse seeking bankruptcy relief does not extend the time for filing a petition in Tax Court for the spouse who is not in bankruptcy.

How to file your petition form

Send the completed petition form, a copy of this letter, and copies of all statements and/or schedules you received with this letter to the Tax Court at the address above. If more than one tax year is shown above, you may file one petition form showing all of the years you are challenging.

You may represent yourself before the Tax Court, or you may be represented by anyone admitted to practice before the Tax Court.

Time limits on filing a petition

The time you have to file a petition in the Tax Court is set by law.

1. The petition is considered timely filed if the postmark date falls within the prescribed 90 or 150 day period and the envelope containing the petition is properly addressed with the correct postage.

2. The Tax Court cannot consider your case if your Tax Court petition is filed late. IRS cannot grant an extension or allow a suspension of the prescribed deadline, even for reasonable cause. Thus, contacting the Internal Revenue Service (IRS) for more information, or receiving other correspondence from the IRS won't change the allowable period for filing a petition with the Tax Court.

If you agree with the Notice of Deficiency

If you decide not to file a petition with the Tax Court, please sign the enclosed Form 4089-B, Notice of Deficiency - Waiver, and return it to us at the IRS address on the top of the first page of this letter. This will permit us to assess the deficiency quickly and can help limit the accumulation of interest.

If we don't hear from you

If you decide not to sign and return Form 4089-B, and you do not file a petition with the Tax Court within the time limit, the law requires us to assess and bill you for the deficiency after 90 days from the date of this letter (150 days if this letter is addressed to you outside the United States).

NOTE: If you are a C-corporation, section 6621(c) of the Internal Revenue Code requires that we charge an interest rate two percent higher than the normal rate on corporate underpayments in excess of $100,000.

Information about the IRS Taxpayer Advocate Office

The IRS office whose phone number appears at the top of the notice can best address and access your tax information and help get you answers. You may be eligible for help from the Taxpayer Advocate Service (TAS) if you have tried to resolve your tax problem through normal IRS channels and have gotten nowhere, or you believe an IRS procedure just isn't working as it should. TAS is your voice at the IRS. TAS helps taxpayers whose problems are causing financial difficulty or significant cost, including the cost of professional representation (this includes businesses as well as individuals). You can reach TAS by calling the TAS toll-free number at 1-877-777-4778 or by contacting the local Taxpayer Advocate office at:

Laguna Niguel Office
Taxpayer Advocate
24000 Avila Road, Room 3361
Laguna Niguel, CA 92677
(949) 389-4804

Los Angeles Office
Taxpayer Advocate
300 N. Los Angeles Street
Room 5109, Stop 6710
Los Angeles, CA 90012
(213) 576-3140

Oakland Office
Taxpayer Advocate
1301 Clay Street, Suite 1540-S
Oakland, CA 94612
(510) 907-5269

Sacramento Office
Taxpayer Advocate
4330 Watt Avenue, Stop SA5043
Sacramento, CA 95821
(916) 974-5007

San Jose Office
Taxpayer Advocate
55 S. Market Street, Stop 0004
San Jose, CA 95113
(408) 283-1500

Fresno
Taxpayer Advocate
5045 East Butler Avenue, Stop 1394
Fresno, CA 93888
(559) 442-6400

To learn more about TAS and your basic tax responsibilities, visit www.TaxpayerAdvocate.irs.gov.

How to contact us

You may write or call the contact person whose name, telephone number, and IRS address are shown in the heading of this letter if you need further assistance. If you write, please include your telephone number, the best times if we need to call you and a copy of this letter to help us identify your account.

If you prefer to call and the telephone number is outside your local calling area, there may be a long distance charge to you.

Keep the original letter for your records.

Sincerely yours,
John A. Koskinen
Commissioner by

John J Reiter
Acting Technical Services Territory Manager

Enclosures:
Form 4549-A or Form 5278
Form 4089-B

Form 4089 (Rev. January 1983)	Department of the Treasury - Internal Revenue Service **Notice of Deficiency - Waiver**	Symbols SE:S:E:FE:TS:38

Name, SSN or EIN, and Address of Taxpayer(s)

FACEBOOK, INC.
AKA FACEBOOK, INC. & SUBSIDIARIES
1601 WILLOW ROAD
MENLO PARK, CA 94025

Redacted

Kind of Tax	☒ Copy to Authorized Representative
INCOME	JON M CONTRERAS 5250 N PALM AVE STE 300 FRESNO, CA 93704-2200

	DEFICIENCY	
Tax Year Ended	Tax Increase	Penalties
December 31, 2010	$1,733,335.00	
Total(s)	$1,733,335.00	

See attached explanation for the above deficiencies

I consent to the immediate assessment and collection of the deficiencies (increase in tax and penalties) shown above, plus any interest provided by law.

Your Signature	▶ (Signature)		(Date signed)
Spouse's Signature (If A Joint Return Was Filed)	▶ (Signature)		(Date signed)
Taxpayer's Representative Sign Here	▶ (Signature)		(Date signed)
Corporate Name:			
Corporate Officers Sign Here:	▶ (Signature)	(Title)	(Date signed)
	▶ (Signature)	(Title)	(Date signed)

Note:

If you consent to the assessment of the amounts shown in this waiver, please sign and return it to limit the accumulation of interest and expedite our bill to you. Your consent will not prevent you from filing a claim for refund (after you have paid the tax) if you later believe you are entitled to a refund. It will not prevent us from later determining, if necessary, that you owe additional tax; nor will it extend the time provided by law for either action.

If you later file a claim and the Service disallows it, you may file suit for refund in a District Court or in the United States Claims Court, but you may not file a petition with the United States Tax Court.

Who Must Sign

If this waiver is for any year(s) for which you filed a joint return, both you and your spouse must sign the original and duplicate of this form. Sign your name exactly as it appears on the return. If you are acting under a power of attorney for your spouse, you may sign as agent for him or her.

For an agent or attorney acting under power of attorney, a power of attorney must be sent with this form if not previously filed.

For a person acting under fiduciary capacity (executor, administrator, trustee), file Form 56, Notice Concerning Fiduciary Relationship, with this form, if not previously filed.

For a Corporation, enter the name of the corporation, followed by the signature and title of the officer(s) authorized to sign.

If you agree, please sign one copy and return it; keep the other copy for your records.

Form 4089 (Rev. January 1983)	Department of the Treasury - Internal Revenue Service **Notice of Deficiency - Waiver**	Symbols SE:S:E:FE:TS:38

Name, SSN or EIN, and Address of Taxpayer(s)

FACEBOOK, INC.
AKA FACEBOOK, INC. & SUBSIDIARIES
1601 WILLOW ROAD
MENLO PARK, CA 94025

Redacted

Kind of Tax	☒ Copy to Authorized Representative
INCOME	DONALD CARLOCK 5250 N PALM AVE STE 300 FRESNO, CA 93704-2200

	DEFICIENCY	
Tax Year Ended	Tax Increase	Penalties
December 31, 2010	$1,733,335.00	
Total(s)	$1,733,335.00	

See attached explanation for the above deficiencies

I consent to the immediate assessment and collection of the deficiencies (increase in tax and penalties) shown above, plus any interest provided by law.

Your Signature ▶	(Signature)		(Date signed)
Spouse's Signature (If A Joint Return Was Filed) ▶	(Signature)		(Date signed)
Taxpayer's Representative Sign Here ▶	(Signature)		(Date signed)
Corporate Name:			
Corporate Officers Sign Here: ▶	(Signature)	(Title)	(Date signed)
▶	(Signature)	(Title)	(Date signed)

Note:

If you consent to the assessment of the amounts shown in this waiver, please sign and return it to limit the accumulation of interest and expedite our bill to you. Your consent will not prevent you from filing a claim for refund (after you have paid the tax) if you later believe you are entitled to a refund. It will not prevent us from later determining, if necessary, that you owe additional tax; nor will it extend the time provided by law for either action.

If you later file a claim and the Service disallows it, you may file suit for refund in a District Court or in the United States Claims Court, but you may not file a petition with the United States Tax Court.

Who Must Sign

If this waiver is for any year(s) for which you filed a joint return, both you and your spouse must sign the original and duplicate of this form. Sign your name exactly as it appears on the return. If you are acting under a power of attorney for your spouse, you may sign as agent for him or her.

For an agent or attorney acting under power of attorney, a power of attorney must be sent with this form if not previously filed.

For a person acting under fiduciary capacity (executor, administrator, trustee), file Form 56, Notice Concerning Fiduciary Relationship, with this form, if not previously filed.

For a Corporation, enter the name of the corporation, followed by the signature and title of the officer(s) authorized to sign.

If you agree, please sign one copy and return it; keep the other copy for your records.

NOTICE OF DEFICIENCY - STATEMENT
Facebook Inc. & Subsidiaries
EIN: Redacted
Tax Year Ended: 201012

Attachment to Form 4089-A: Affiliations Statement

PARENT COMPANY:
Facebook, Inc. & Subsidiaries

SUBSIDIARY COMPANIES:	EIN
Parakey, Inc.	Redacted
Facebook Sales, Inc.	
Connect U, Inc.	
Canada Acquisition Corporation	
Facebook Global Holdings I, LLC	
FriendFeed Inc	
Facebook Global Holdings II, LLC	
Facebook Services, Inc.	
Facebook Payments, Inc.	
Andale, Inc.	
Andale Acquisition Corp.	
Chai Labs, Inc.	
Hero Acquisition Corp.	
Facebook Global Holdings I, Inc.	
Disco Acquisition Corp.	
Seltzer Acquisition Corp.	
Allegro USA, Inc.	

The tax liability of Facebook Inc. and each subsidiary company named above is stated as provided for by regulations prescribed under Section 1502 of the Internal Revenue Code. The deficiency shown will be assessed severally against each corporation named above in accordance with regulations under Section 1502 of the Internal Revenue Code.

Form **4549-A** (Rev. May 2008)

Department of the Treasury-Internal Revenue Service

Income Tax Discrepancy Adjustments

Name and Address of Taxpayer
Facebook, Inc. and Subsidiaries
1601 Willow Road
Menlo Park, CA 94025

Taxpayer Identification Number: Redacted

Return Form No.: 1120

Person with whom examination changes were discussed.

Name and Title: Ted Price, Vice President of Tax / Treasurer

1. **Adjustments to Income**	**Period End** 12-31-2010	**Period End**	**Period End**
a. Gross Royalties	84,915,248		
b. Other Deductions	5,390,144		
c. CALC04 - Net Operating Loss Deduction <Increase>	-718,246,381		
d. CALC31 - Domestic Production Activities Deduction Decrease	6,003,887		
e.			
f.			
g.			
h.			
i.			
j.			
k.			
l.			
m.			
n.			
o.			
p.			
2. **Total Adjustments**	-621,937,102		
3. Taxable Income Per Return or as Previously Adjusted	621,937,102		
4. **Corrected Taxable Income**	0		
Tax Method			
Filing Status			
5. **Tax**	0		
6. **Additional Taxes / Alternative Minimum Tax**	13,138,721		
7. Corrected Tax Liability	13,138,721		
8. **Less Credits** a. Foreign Tax Credit	0		
b. Other Subpart B Credits	0		
c. General Business Credit	0		
d. Minimum Tax Credit/Bond Credits	0		
9. **Balance** *(Line 7 less Lines 8a through 8d)*	13,138,721		
10. Plus Other Taxes a. Credit Recapture & Other Taxes	0		
b. Alternative Minimum Tax (Before 2000)	N/A		
c. Environmental Tax	N/A		
d. Other Taxes	N/A		
11. Total Corrected Tax Liability *(Line 9 plus Lines 10a through 10d)*	13,138,721		
12. Total Tax Shown on Return or as Previously Adjusted	210,521,777		
13. Adjustments to: a. Tentative Refund Filed 4/22/2013	-199,116,391		
b.	0		
c.	0		
d.	0		
14. Deficiency-Increase in Tax or *(Overassessment-Decrease in Tax)* *(Line 11 less Line 12 adjusted by Lines 13a through 13c)*	1,733,335		
15. Adjustments to Prepayment Credits - Increase *(Decrease)*	0		
16. **Balance Due or *(Overpayment)*** - *(Line 14 adjusted by Line 15)* *(Excluding interest and penalties)*	1,733,335		

Form **4549-A** (Rev. May 2008)	Department of the Treasury-Internal Revenue Service **Income Tax Discrepancy Adjustments**	Page 2 of 2

Name of Taxpayer	Taxpayer Identification Number	Return Form No.:
Facebook, Inc. and Subsidiaries	Redacted	1120

17. **Penalties/ Code Sections**	**Period End** 12-31-2010	**Period End**	**Period End**
a.	0		
b.	0		
c.	0		
d.	0		
e.	0		
f.	0		
g.	0		
h.	0		
i.	0		
j.	0		
k.	0		
l.	0		
m.	0		
n.			
18. **Total Penalties**	0		
Underpayment attributable to negligence: *(1981-1987)* *A tax addition of 50 percent of the interest due on the underpayment will accrue until it is paid or assessed.*	0		
Underpayment attributable to fraud: *(1981-1987)* *A tax addition of 50 percent of the interest due on the underpayment will accrue until it is paid or assessed.*	0		
Underpayment attributable to Tax Motivated Transactions *(TMT)*. Interest will accrue and be assessed at 120% of underpayment rate in accordance with IRC 6621(c).	0		
19. **Summary of Taxes, Penalties and Interest:**			
a. Balance due or *(Overpayment)* Taxes - *(Line 16, Page 1)*	1,733,335		
b. Penalties *(Line 18)* - computed to	0		
c. Interest *(IRC § 6601)* - computed to	0		
d. TMT Interest - computed to *(on TMT underpayment)*	0		
e. Amount due or refund - *(sum of Lines a, b, c and d)*	1,733,335		

Other Information:

The net operating loss carryback from the year ending December 31, 2012 reflected herein, is subject to correction upon examination of the tax return from which it originated.

Examiner's Signature: Name		Employee ID:	Office:	Date:
Leland Wong	Leland Wong [redacted]	1000682934	San Jose	July 26, 2016

The Internal Revenue Service has agreements with state tax agencies under which information about federal tax, including increases or decreases, is exchanged with the states. If this change affects the amount of your state income tax, you should amend your state return by filing the necessary forms.

You may be subject to backup withholding if you underreport your interest, dividend, or patronage dividend income you earned and do not pay the required tax. The IRS may order backup withholding (withholding of a percentage of your dividend and/or interest payments) if the tax remains unpaid after it has been assessed and four notices have been issued to you over a 120-day period.

Federal Total Tax

Year Ending:	1: As Filed 12-31-2010	6: Per TP All Adj 12-31-2010	Diff: 6-1 12-31-2010
REGULAR TAXABLE INCOME:			
Regular Taxable Income	621,937,102	-6,240,368,028	-6,862,305,130
FEDERAL INCOME TAX:			
Regular Income Tax	217,677,986	0	-217,677,986
Alternative Capital Gains Tax	n/a	n/a	0
Income Tax Before Adjustment	217,677,986	0	-217,677,986
Adjustment to Fed Inc Tax	0	0	0
Federal Income Tax	217,677,986	0	-217,677,986
FEDERAL TOTAL TAX:			
Federal Income Tax	217,677,986	0	-217,677,986
Alternative Minimum Tax	0	13,138,721	13,138,721
Federal Income Tax Plus AMT	217,677,986	13,138,721	-204,539,265
Less: Foreign Tax Credit	0	0	0
Other Subpart B Credits	0	0	0
General Business Credit	7,156,209	0	-7,156,209
Min Tax Credit/Bond Credits	0	0	0
Plus: Other Taxes & Interest	0	0	0
Federal Total Tax	210,521,777	13,138,721	-197,383,056

Post-6/1987 Regular Tax by Brackets

Year Ending:	1: As Filed 12-31-2010	6: Per TP All Adj 12-31-2010	Diff: 6-1 12-31-2010
SPECIAL CORPORATIONS:			
Member of Controlled Group (Y/N)	No	No	No
PSC Flat Tax Applies (Y/N)	No	No	No
REGULAR TAXABLE INCOME:			
TI/Partial TI Before Annualization	621,937,102	-6,240,368,028	-6,862,305,130
Short Year:			
Annualization Applies (Y/N)	n/a	n/a	No
Annualization Factor	n/a	n/a	0
TI/Partial TI After Annualization	621,937,102	-6,240,368,028	-6,862,305,130
TAX AFTER 1992:			
15%: 1st 50,000	7,500	0	-7,500
25%: Next 25,000	6,250	0	-6,250
34%: Next 9,925,000	3,374,500	0	-3,374,500
35%: Over 10,000,000	214,177,986	0	-214,177,986
Additional 5% Tax	11,750	0	-11,750
Additional 3% Tax	100,000	0	-100,000
Total Post-92 Tax	217,677,986	0	-217,677,986
Post-92 Fraction	n/a	n/a	0
Prorated Post-92 Tax	217,677,986	0	-217,677,986
REGULAR INCOME TAX:			
Total Prorated Taxes	217,677,986	0	-217,677,986
Short Year:			
Un-Annualization Factor	n/a	n/a	0
General Method Tax	n/a	n/a	0
Optional Method Tax	n/a	n/a	0
Regular Income Tax/Partial Tax	217,677,986	0	-217,677,986

Regular Taxable Income

Year Ending:	1: As Filed 12-31-2010	6: Per TP All Adj 12-31-2010	Diff: 6-1 12-31-2010
INCOME:			
Gross Income - Ordinary	1,542,388,665	1,627,303,913	84,915,248
Capital Gain Before CO/CB	0	0	0
Less: Capital Loss Carryovers	0	0	0
Capital Loss Carrybacks	0	0	0
Ordinary Gain/Loss	-4,197,276	-4,197,276	0
Passive Income/Loss Allowed	0	0	0
Total Income	1,538,191,389	1,623,106,637	84,915,248
DEDUCTIONS:			
Charitable Contributions Deduction	455,726	455,726	0
Deductions Except Contrib/S199	908,509,296	903,119,152	-5,390,144
Total Deductions Except S199	908,965,022	903,574,878	-5,390,144
TAXABLE INCOME:			
TI Before NOLD/Special Deductions	629,226,367	719,531,759	90,305,392
Less: NOL Carryovers	1,285,378	0	-1,285,378
NOL Carrybacks	0	6,959,899,787	6,959,899,787
Dividends-Received Deduction	0	0	0
Dividends Paid Deduction	0	0	0
Taxable Income Before S199	627,940,989	-6,240,368,028	-6,868,309,017
Less: Section 199 Deduction	6,003,887	0	-6,003,887
Taxable Income Before Other	621,937,102	-6,240,368,028	-6,862,305,130
Add: Other Taxable Income	0	0	0
Regular Taxable Income	621,937,102	-6,240,368,028	-6,862,305,130

Regular NOL Summary

Year Ending:	1: As Filed 12-31-2010	6: Per TP All Adj 12-31-2010	Diff: 6-1 12-31-2010
BEFORE NOL DEDUCTION:			
Taxable Income Before S199/NOLD	629,226,367	719,531,759	90,305,392
Additional <NOL Generated>	n/a	n/a	0
TI Before NOLD/<NOL Generated>	629,226,367	719,531,759	90,305,392
NOLS ABSORBED IN CURRENT YEARS:			
Carryovers and Carrybacks From/<To>:			
From [12-2007]	-1,285,378	0	1,285,378
From 12-2012	0	-719,531,759	-719,531,759
AFTER CONSTRAINED NOL DEDUCTION:			
TI Before S199/After Constrained NOLD	627,940,989	0	-627,940,989

Regular NOL Carryovers/Carrybacks

Year Ending:	1: As Filed 12-31-2010	6: Per TP All Adj 12-31-2010	Diff: 6-1 12-31-2010
NOL CARRYOVERS FROM:			
[12-31-2007]	1,285,378	0	-1,285,378
Total NOL COs Before Adjustment	1,285,378	0	-1,285,378
Total NOL Carryovers	1,285,378	0	-1,285,378
NOL CARRYBACKS FROM:			
12-31-2012	0	6,959,899,787	6,959,899,787
Total NOL CBs Before Adjustment	0	6,959,899,787	6,959,899,787
Total NOL Carrybacks	0	6,959,899,787	6,959,899,787
NOL DEDUCTION:			
Total NOL Carryovers	1,285,378	0	-1,285,378
Total NOL Carrybacks	0	6,959,899,787	6,959,899,787
NOL Deduction	1,285,378	6,959,899,787	6,958,614,409

Regular NOL Absorbed

	1: As Filed		6: Per TP All Adjustments		Diff: 6-1	
Year Ending:	[12-31-2007]	12-31-2010	[12-31-2007]	12-31-2010	[12-31-2007]	12-31-2010
CURRENT NOL:						
Net Operating Loss	1,332,241	0	2,215,894	0	883,653	0
NOL CARRYOVERS:						
Balance After Carrybacks	1,332,241	0	2,215,894	0	883,653	0
Balance After User Entries	1,332,241	0	2,215,894	0	883,653	0
Absorbed by Carryover to:						
12-31-2009	0	0	883,653	0	883,653	0
12-31-2010	1,285,378	0	0	0	-1,285,378	0
EXPIRED/UNUSED NOL:						
Expired	0	0	0	0	0	0
Unused Net Operating Loss	46,863	0	1,332,241	0	1,285,378	0

Regular NOL Absorbed BY Current Year

Year Ending:	1: As Filed 12-31-2010	6: Per TP All Adj 12-31-2010	Diff: 6-1 12-31-2010
NOL Carryovers Absorbed by Current Year from:			
[12-31-2007]	1,285,378	0	-1,285,378
Carryovers Absorbed	1,285,378	0	-1,285,378
NOL Carrybacks Absorbed by Current Year from:			
12-31-2012	0	719,531,759	719,531,759
Carrybacks Absorbed	0	719,531,759	719,531,759
Total NOL Absorbed	1,285,378	719,531,759	718,246,381

Year Ending:	1: As Filed 12-31-2010	6: Per TP All Adj 12-31-2010	Diff: 6-1 12-31-2010
SMALL CORPORATION:			
Qualifies for AMT Repeal	No	No	No
TENTATIVE MINIMUM TAX:			
Alternative Minimum Taxable Income	614,359,438	65,693,607	-548,665,831
Annualization Factor for AMTI	1	1	0
AMTI - Annualized	614,359,438	65,693,607	-548,665,831
Less: Exemption	0	0	0
Excess AMTI	614,359,438	65,693,607	-548,665,831
Pre-Credit TMT	122,871,888	13,138,721	-109,733,167
Overall AMT FTC Limitation	122,871,888	13,138,721	-109,733,167
AMT Foreign Tax Credit	0	0	0
TMT - Annualized	122,871,888	13,138,721	-109,733,167
Un-Annualization Factor for TMT	1	1	0
Tentative Minimum Tax	122,871,888	13,138,721	-109,733,167
REGULAR TAX:			
Federal Income Tax	217,677,986	0	-217,677,986
Less: FTC/Possessions Credit	0	0	0
Regular Tax After FTC	217,677,986	0	-217,677,986
ALTERNATIVE MINIMUM TAX:			
AMT Before Adjustment	0	13,138,721	13,138,721
Adjustment to AMT	0	0	0
Alternative Minimum Tax	0	13,138,721	13,138,721

Alternative Minimum Taxable Income

Year Ending:	1: As Filed 12-31-2010	6: Per TP All Adj 12-31-2010	Diff: 6-1 12-31-2010
SMALL CORPORATION:			
Qualifies for AMT Repeal	No	No	No
PREADJUSTMENT AMTI:			
Taxable Income Before S199	627,940,989	-6,240,368,028	-6,868,309,017
Add: Regular NOL Deduction	1,285,378	6,959,899,787	6,958,614,409
Taxable Income Before Regular NOLD	629,226,367	719,531,759	90,305,392
Add: Adjustments/Preference Items Before S199	-2,556,822	-2,556,822	0
Preadjustment AMTI	626,669,545	716,974,937	90,305,392
ADJUSTMENTS:			
ACE Adjustment	0	0	0
AMTI Before AMT NOLD	626,669,545	716,974,937	90,305,392
AMT NET OPERATING LOSS:			
AMT NOL Carryovers	6,306,220	0	-6,306,220
AMT NOL Carrybacks	0	6,959,899,974	6,959,899,974
AMT NOLD Limitation	6,306,220	645,277,443	638,971,223
AMT NOL Deduction	6,306,220	645,277,443	638,971,223
ALTERNATIVE MINIMUM TAXABLE INCOME:			
AMTI Before Section 199 Deduction	620,363,325	71,697,494	-548,665,831
Less: Section 199 Deduction for AMTI	6,003,887	6,003,887	0
AMTI Before Other	614,359,438	65,693,607	-548,665,831
Add: Other AMTI	0	0	0
Alternative Minimum Taxable Income	614,359,438	65,693,607	-548,665,831

AMT NOL Summary

Year Ending:	1: As Filed 12-31-2010	6: Per TP All Adj 12-31-2010	Diff: 6-1 12-31-2010
BEFORE AMT NOL DEDUCTION:			
AMTI Before AMT NOLD	626,669,545	716,974,937	90,305,392
Additional <AMT NOL Generated>	n/a	n/a	0
AMTI Before AMT NOLD/<AMT NOL Gen>	626,669,545	716,974,937	90,305,392
AMT NOLS ABSORBED IN CURRENT YEARS:			
Carryovers and Carrybacks From/<To>:			
From [12-2007]	-961,977	0	961,977
From 12-2008	-5,344,243	0	5,344,243
From 12-2012	0	-645,277,443	-645,277,443
INCREASE/DECREASE AMT NOL CARRYOVERS:			
AFTER AMT NOL DEDUCTION:			
AMTI After AMT NOLD	620,363,325	71,697,494	-548,665,831

AMT NOL Carryovers/Carrybacks

Year Ending:	1: As Filed 12-31-2010	6: Per TP All Adj 12-31-2010	Diff: 6-1 12-31-2010
Carryovers Available from:			
[12-31-2007]	961,977	0	-961,977
12-31-2008	5,344,243	0	-5,344,243
AMT NOL Carryovers	6,306,220	0	-6,306,220
Carrybacks Available from:			
12-31-2012	0	6,959,899,974	6,959,899,974
AMT NOL Carrybacks	0	6,959,899,974	6,959,899,974

AMT NOL Absorbed

Year Ending:	1: As Filed [12-31-2007]	1: As Filed 12-31-2010	6: Per TP All Adjustments [12-31-2007]	6: Per TP All Adjustments 12-31-2010	Diff: 6-1 [12-31-2007]	Diff: 6-1 12-31-2010
CURRENT AMT NOL:						
AMT Net Operating Loss	961,977	0	1,932,651	0	970,674	0
AMT NOL CARRYOVERS:						
Balance After Carrybacks	961,977	0	1,932,651	0	970,674	0
Balance After User Entries	961,977	0	1,932,651	0	970,674	0
Absorbed by Carryover to:						
12-31-2009	0	0	883,653	0	883,653	0
12-31-2010	961,977	0	0	0	-961,977	0
EXPIRED/UNUSED NOL:						
Expired	0	0	0	0	0	0
Unused AMT NOL	0	0	1,048,998	0	1,048,998	0

General Business Credit - Summary

Year Ending:	1: As Filed 12-31-2010	6: Per TP All Adj 12-31-2010	Diff: 6-1 12-31-2010
STANDARD GBC GENERATED THIS YEAR:			
Current Standard GBC	7,156,209	7,156,209	0
Less: Allowed This Year	7,156,209	0	-7,156,209
Available for CO/CB	0	7,156,209	7,156,209
ABSORBED BY CO/CB TO CURRENT YEARS:			
Carryovers and Carrybacks <From>/To:			
From 12-2010	0	-7,156,209	-7,156,209
STANDARD GBC ALLOWED THIS YEAR:			
Standard GBC Limitation	94,806,098	0	-94,806,098
Standard GBC Allowed This Year:			
Refundable Standard GBC	n/a	n/a	0
Nonrefundable Standard GBC:			
From This Year	7,156,209	0	-7,156,209
From Other Years	0	0	0
Total Nonfundable	7,156,209	0	-7,156,209
TOTAL GBC ALLOWED THIS YEAR:			
Nonrefundable Standard GBC Allowed	7,156,209	0	-7,156,209
Zone Credits Allowed	0	0	0
Specified Credits Allowed	0	0	0
Eligible Small Business Credits Allowed	0	0	0
Total GBC Before Adjustment	7,156,209	0	-7,156,209
Adjustment to Total GBC	0	0	0
Total Nonrefundable GBC Allowed	7,156,209	0	-7,156,209

EXPLANATION OF ADJUSTMENTS
Tax Year Ending December 31, 2010

Line 1. Adjustments to Income

a) Gross Royalties

Tax Period	Reported Gross Royalties	Corrected Gross Royalties	Adjustment
2010	100,000,000	184,915,248	84,915,248

You transferred intangible property effective September 15, 2010 to Facebook Ireland Holdings Unlimited (formerly known as Facebook Ireland Holdings Limited), a commonly owned or controlled entity within the meaning of Internal Revenue Code § 482. You agreed to a form of payment in annual contingent amounts for the transferred intangible property. You also determined an approximate net present value (NPV) of $6.7 billion for the transferred intangible property.

Pursuant to Section 482, we have determined that the NPV of the transferred intangible property is $13,883,630,000. As a result, we have determined that your income, in the form of Gross Royalties, is increased by $ 84,915,248 for 2010, using a form of payment period of six years.

b) Other Deductions

Tax Period	Reported Other Deductions	Corrected Other Deductions	Adjustment
2010	444,777,926	439,387,782	5,390,144

We have determined that you did not properly calculate your reasonably anticipated benefits under the rules of Internal Revenue Code § 482 and therefore did not properly allocate intangible development costs between participants in your cost sharing arrangement. Consequently, we have decreased your allowable Other Deductions by $5,390,144 resulting in an increase in your taxable income.

c) CALC 04—Net Operating Loss (NOL) Deduction

Tax Period	Reported NOL Deduction	Corrected NOL Deduction	Adjustment
2010	1,285,378	719,531,759	-718,246,381

EXPLANATION OF ADJUSTMENTS
Tax Year Ending December 31, 2010

We adjusted your return to increase the NOL Deduction by $718,246,381, as shown on the attached computation report.

Line 1. Adjustments to Income, cont'd.

d) CALC 31—Domestic Production Activities Deduction (DPAD)

Tax Period	Reported DPAD	Corrected DPAD	Adjustment
2010	**6,003,887**	**0**	**6,003,887**

We adjusted your return to decrease your Domestic Production Activities Deduction pursuant to Internal Revenue Code Section 199 by $6,003,887, as shown on the attached computation report.

Line 8. Less Credits

c) General Business Credit

Tax Period	Reported General Business Credit	Corrected General Business Credit	Adjustment
2010	**7,156,209**	**0**	**7,156,209**

We adjusted your return to decrease the General Business Credit by $7,156,209 to 0, as shown on the attached computation report.