

NEW RISK ALERT: (FSLY)

Fastly Makes \$5.1 Million Accounting Error, Reveals New Control Deficiencies

Cloud platform also warns customers at risk of churning following outage are not using the platform at same level as before.

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This alert compares the language used in the company's latest filing with the period before. [Research](#) suggests changes in language, particularly in the risk factor section, is a powerful indicator of future performance. Companies that change filing language underperform those that don't by 30-50 basis points per month for the following year.

Fastly's Latest Accounting Error Results in New Control Deficiency

Earlier this year we warned of [improper accounting](#) at Fastly, an edge cloud platform for processing, serving, and securing applications. Three months after our initial report the company's CFO resigned and shares had declined 41.9%. Since then shares have rebounded but the accounting problems and internal controls over financial reporting (ICFR) have worsened.

In its latest [10-Q](#), Fastly revealed \$5.1 million in accounting errors in which it had been expensing certain items that should have been capitalized:

*"We recorded out-of-period adjustments in the quarter ended September 30, 2021 to correct and capitalize certain internal-use software costs that were previously expensed of **\$5.1 million, of which \$2.4 million and \$2.7 million** related to the quarterly periods ended March 31, 2021 and June 30, 2021, respectively. In the quarter ended March 31, 2021, \$2.0 million and \$0.4 million were previously recorded to research and development and cost of revenue, respectively. In the quarter ended June 30, 2021, \$2.3 million and \$.4 million were previously recorded to research and development and cost of revenue, respectively. The out-of-period adjustments are considered quantitatively and qualitatively immaterial."*

Not surprisingly, the accounting errors resulted in Fastly disclosing another material weakness over ICFR related to internal-use software costs:

*“We also identified a material weakness in our internal control over financial reporting during the quarter ended September 30, 2021 related to our accounting for internal-use software costs. The material weakness resulted from a **lack of timely and complete identification** of internal-use software costs for capitalization, for which we recorded out-of-period adjustments in the quarter ended September 30, 2021.”*

In our earlier report, we detailed that despite claims of progress, Fastly had unremediated control deficiencies dating back to 2017. In the current filing, Fastly assures investors it’s working cross-functionally to ensure its accounting team receives accurate information on a timely basis.

Earlier we mentioned shares had rebounded since our initial report, up approximately 25% from the low. The bounce was due, in part, because Fastly mentioned it had retained large customers it wasn’t sure it would following a platform outage the prior quarter. The latest quarterly filing confirms the customers were retained, but suggests they are not using Fastly’s platform as robustly as they once did:

*“While these customers have returned to our platform, **they have not returned, and may never return, to prior levels.**”*