

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended March 31, 2017

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 001-35551

**FACEBOOK, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**20-1665019**

(I.R.S. Employer Identification Number)

**1601 Willow Road, Menlo Park, California 94025**  
(Address of principal executive offices and Zip Code)

**(650) 543-4800**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (Exchange Act) during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

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

Class	Number of Shares Outstanding
Class A Common Stock \$0.000006 par value	2,364,782,615 shares outstanding as of May 1, 2017
Class B Common Stock \$0.000006 par value	533,394,333 shares outstanding as of May 1, 2017

**FACEBOOK, INC.**  
**TABLE OF CONTENTS**

	<u>Page No.</u>
<a href="#">Note About Forward-Looking Statements</a>	<a href="#">3</a>
<a href="#">Limitations of Key Metrics and Other Data</a>	<a href="#">4</a>
<a href="#">PART I—FINANCIAL INFORMATION</a>	
Item 1. <a href="#">Financial Statements (unaudited)</a>	<a href="#">5</a>
<a href="#">Condensed Consolidated Balance Sheets—March 31, 2017 and December 31, 2016</a>	<a href="#">5</a>
<a href="#">Condensed Consolidated Statements of Income—for the three months ended March 31, 2017 and 2016</a>	<a href="#">6</a>
<a href="#">Condensed Consolidated Statements of Comprehensive Income—for the three months ended March 31, 2017 and 2016</a>	<a href="#">7</a>
<a href="#">Condensed Consolidated Statements of Cash Flows—for the three months ended March 31, 2017 and 2016</a>	<a href="#">8</a>
<a href="#">Notes to Condensed Consolidated Financial Statements</a>	<a href="#">10</a>
Item 2. <a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">20</a>
Item 3. <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	<a href="#">34</a>
Item 4. <a href="#">Controls and Procedures</a>	<a href="#">35</a>
<a href="#">PART II—OTHER INFORMATION</a>	
Item 1. <a href="#">Legal Proceedings</a>	<a href="#">36</a>
Item 1A. <a href="#">Risk Factors</a>	<a href="#">37</a>
Item 2. <a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	<a href="#">58</a>
Item 6. <a href="#">Exhibits</a>	<a href="#">59</a>
<a href="#">SIGNATURES</a>	<a href="#">60</a>

## NOTE ABOUT FORWARD-LOOKING STATEMENTS

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

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

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

## LIMITATIONS OF KEY METRICS AND OTHER DATA

The numbers for our key metrics, which include our daily active users (DAUs), monthly active users (MAUs), and average revenue per user (ARPU), are calculated using internal company data based on the activity of user accounts. While these numbers are based on what we believe to be reasonable estimates of our user base for the applicable period of measurement, there are inherent challenges in measuring usage of our products across large online and mobile populations around the world. In addition, we are continually seeking to improve our estimates of our user base, and such estimates may change due to improvements or changes in our methodology. In 2016, we estimate that "duplicate" accounts (an account that a user maintains in addition to his or her principal account) may have represented approximately 6% of our worldwide MAUs. We also seek to identify "false" accounts, which we divide into two categories: (1) user-misclassified accounts, where users have created personal profiles for a business, organization, or non-human entity such as a pet (such entities are permitted on Facebook using a Page rather than a personal profile under our terms of service); and (2) undesirable accounts, which represent user profiles that we determine are intended to be used for purposes that violate our terms of service, such as spamming. In 2016, for example, we estimate user-misclassified and undesirable accounts may have represented approximately 1% of our worldwide MAUs. We believe the percentage of accounts that are duplicate or false is meaningfully lower in developed markets such as the United States or United Kingdom and higher in developing markets such as India and Turkey. However, these estimates are based on an internal review of a limited sample of accounts and we apply significant judgment in making this determination, such as identifying names that appear to be fake or other behavior that appears inauthentic to the reviewers. Our estimates may change as our methodologies evolve, including through the application of new technologies, which may allow us to identify previously undetected false or duplicate accounts and improve our ability to evaluate a broader population of our users. As such, our estimation of duplicate or false accounts may not accurately represent the actual number of such accounts.

Our data limitations may affect our understanding of certain details of our business. For example, while user-provided data indicates a decline in usage among younger users, this age data is unreliable because a disproportionate number of our younger users register with an inaccurate age. Accordingly, our understanding of usage by age group may not be complete.

In addition, our data regarding the geographic location of our users is estimated based on a number of factors, such as the user's IP address and self-disclosed location. These factors may not always accurately reflect the user's actual location. For example, a user may appear to be accessing Facebook from the location of the proxy server that the user connects to rather than from the user's actual location. The methodologies used to measure user metrics may also be susceptible to algorithm or other technical errors. Our estimates for revenue by user location and revenue by user device are also affected by these factors. For example, we discovered an error in the algorithm we used to attribute our revenue by user geography in late 2015. While this issue did not affect our overall worldwide revenue, it did affect our attribution of revenue to different geographic regions. The fourth quarter of 2015 revenue by user geography and ARPU amounts were adjusted to reflect this reclassification.

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

The numbers of DAUs and MAUs discussed in this Quarterly Report on Form 10-Q, as well as ARPU, do not include Instagram, WhatsApp, or Oculus users unless they would otherwise qualify as such users, respectively, based on their other activities on Facebook. In addition, other user engagement metrics included herein do not include Instagram, WhatsApp, or Oculus unless otherwise specifically stated.

**PART I—FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**FACEBOOK, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
*(In millions, except for number of shares and par value)*  
*(Unaudited)*

	March 31, 2017	December 31, 2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 7,104	\$ 8,903
Marketable securities	25,202	20,546
Accounts receivable, net of allowances for doubtful accounts of \$86 and \$94 as of March 31, 2017 and December 31, 2016, respectively	3,415	3,993
Prepaid expenses and other current assets	1,209	959
Total current assets	36,930	34,401
Property and equipment, net	9,462	8,591
Intangible assets, net	2,360	2,535
Goodwill	18,126	18,122
Other assets	1,836	1,312
<b>Total assets</b>	<b>\$ 68,714</b>	<b>\$ 64,961</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 170	\$ 302
Partners payable	278	280
Accrued expenses and other current liabilities	2,400	2,203
Deferred revenue and deposits	80	90
Total current liabilities	2,928	2,875
Other liabilities	3,598	2,892
Total liabilities	6,526	5,767
Stockholders' equity:		
Common stock, \$0.000006 par value; 5,000 million Class A shares authorized, 2,364 million and 2,354 million shares issued and outstanding, including 3 million and 4 million outstanding shares subject to repurchase, as of March 31, 2017 and December 31, 2016, respectively; 4,141 million Class B shares authorized, 534 million and 538 million shares issued and outstanding, including 2 million outstanding shares subject to repurchase, as of March 31, 2017 and December 31, 2016	—	—
Additional paid-in capital	38,639	38,227
Accumulated other comprehensive loss	(626)	(703)
Retained earnings	24,175	21,670
Total stockholders' equity	62,188	59,194
<b>Total liabilities and stockholders' equity</b>	<b>\$ 68,714</b>	<b>\$ 64,961</b>

*See Accompanying Notes to Condensed Consolidated Financial Statements.*

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

	Three Months Ended March 31,	
	2017	2016
<b>Revenue</b>	\$ 8,032	\$ 5,382
<b>Costs and expenses:</b>		
Cost of revenue	1,159	838
Research and development	1,834	1,343
Marketing and sales	1,057	826
General and administrative	655	365
<b>Total costs and expenses</b>	<b>4,705</b>	<b>3,372</b>
<b>Income from operations</b>	<b>3,327</b>	<b>2,010</b>
Interest and other income, net	81	56
Income before provision for income taxes	3,408	2,066
Provision for income taxes	344	328
<b>Net income</b>	<b>\$ 3,064</b>	<b>\$ 1,738</b>
Less: Net income attributable to participating securities	5	6
<b>Net income attributable to Class A and Class B common stockholders</b>	<b>\$ 3,059</b>	<b>\$ 1,732</b>
<b>Earnings per share attributable to Class A and Class B common stockholders:</b>		
Basic	\$ 1.06	\$ 0.61
Diluted	\$ 1.04	\$ 0.60
<b>Weighted average shares used to compute earnings per share attributable to Class A and Class B common stockholders:</b>		
Basic	2,891	2,843
Diluted	2,944	2,905
<b>Share-based compensation expense included in costs and expenses:</b>		
Cost of revenue	\$ 34	\$ 22
Research and development	670	586
Marketing and sales	96	82
General and administrative	67	56
Total share-based compensation expense	\$ 867	\$ 746

*See Accompanying Notes to Condensed Consolidated Financial Statements.*

**FACEBOOK, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

*(In millions)*  
*(Unaudited)*

	<u>Three Months Ended March 31,</u>	
	<u>2017</u>	<u>2016</u>
<b>Net income</b>	\$ 3,064	\$ 1,738
<b>Other comprehensive income:</b>		
Change in foreign currency translation adjustment, net of tax	60	137
Change in unrealized gain/loss on available-for-sale investments and other, net of tax	17	42
<b>Comprehensive income</b>	<u>\$ 3,141</u>	<u>\$ 1,917</u>

*See Accompanying Notes to Condensed Consolidated Financial Statements.*

**FACEBOOK, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In millions)  
(Unaudited)

	Three Months Ended March 31,	
	2017	2016
<b>Cash flows from operating activities</b>		
Net income	\$ 3,064	\$ 1,738
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	671	552
Share-based compensation	867	746
Deferred income taxes	(84)	(77)
Other	5	13
Changes in assets and liabilities:		
Accounts receivable	609	267
Prepaid expenses and other current assets	(365)	(107)
Other assets	31	15
Accounts payable	(10)	2
Partners payable	(3)	(3)
Accrued expenses and other current liabilities	61	(18)
Deferred revenue and deposits	(10)	(2)
Other liabilities	222	351
<b>Net cash provided by operating activities</b>	<b>5,058</b>	<b>3,477</b>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(1,271)	(1,132)
Purchases of marketable securities	(6,992)	(3,126)
Sales of marketable securities	1,762	2,013
Maturities of marketable securities	599	537
Acquisitions of businesses, net of cash acquired, and purchases of intangible assets	—	(1)
Change in restricted cash and deposits	11	33
<b>Net cash used in investing activities</b>	<b>(5,891)</b>	<b>(1,676)</b>
<b>Cash flows from financing activities</b>		
Taxes paid related to net share settlement of equity awards	(771)	—
Principal payments on capital lease and other financing obligations	—	(312)
Repurchases of Class A common stock	(228)	—
Other financing activities, net	7	2
<b>Net cash used in financing activities</b>	<b>(992)</b>	<b>(310)</b>
Effect of exchange rate changes on cash and cash equivalents	26	58
Net (decrease) increase in cash and cash equivalents	(1,799)	1,549
Cash and cash equivalents at beginning of period	8,903	4,907
<b>Cash and cash equivalents at end of period</b>	<b>\$ 7,104</b>	<b>\$ 6,456</b>

*See Accompanying Notes to Condensed Consolidated Financial Statements.*



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

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Supplemental cash flow data</b>		
Cash paid during the period for:		
Interest	\$ —	\$ 11
Income taxes, net	\$ 664	\$ 170
<b>Non-cash investing activities:</b>		
Net change in accounts payable, accrued expenses and other current liabilities, and other liabilities related to property and equipment additions	\$ (26)	\$ 52

*See Accompanying Notes to Condensed Consolidated Financial Statements.*

**FACEBOOK, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
*(Unaudited)*

**Note 1. Summary of Significant Accounting Policies**

***Basis of Presentation***

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (GAAP) and applicable rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. As such, the information included in this quarterly report on Form 10-Q should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 .

The condensed consolidated balance sheet as of December 31, 2016 included herein was derived from the audited financial statements as of that date, but does not include all disclosures including notes required by GAAP.

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

The accompanying condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for the full year ending December 31, 2017 .

There have been no changes to our significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 that have had a material impact on our condensed consolidated financial statements and related notes.

In the fourth quarter of 2016, we elected to early adopt Accounting Standards Update No. 2016-09, *Compensation - Stock Compensation (Topic 718): Improvement to Employee Share-based Payment Accounting* (ASU 2016-09). We are required to reflect any adoption adjustments as of January 1, 2016, the beginning of the annual period that includes the interim period of adoption. As such, our condensed consolidated statements of income, statements of comprehensive income and statements of cash flows for the three months ended March 31, 2016, had been adjusted to include the impact of ASU 2016-09 adoption. See "Note 1—Summary of Significant Accounting Policies" in the notes to our consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 for detailed adoption information.

***Use of Estimates***

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

***Recently Issued Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09), which amends the existing accounting standards for revenue recognition. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* , which delays the effective date of ASU 2014-09 by one year. The FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. In March 2016, the FASB issued Accounting Standards Update No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* (ASU 2016-08) which clarifies the implementation guidance on principal versus agent considerations. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. The new standard further requires new disclosures about contracts with customers, including the significant judgments the registrant has made when applying the guidance. The new revenue recognition standard will be effective for us in the first quarter of 2018, with the option to adopt it in the first quarter of 2017. We will be adopting the new standard effective January 1,

2018. The new standard also permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the modified retrospective method). We currently anticipate adopting the standard using the modified retrospective method. While we are still in the process of completing our analysis on the impact this guidance will have on our consolidated financial statements, related disclosures, and our internal controls over financial reporting, we do not expect the impact to be material.

In January 2017, the FASB issued Accounting Standards Update No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (ASU 2017-01), which revises the definition of a business and provides new guidance in evaluating when a set of transferred assets and activities is a business. This guidance will be effective for us in the first quarter of 2018 on a prospective basis, and early adoption is permitted. We do not expect the standard to have a material impact on our consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (ASU 2017-04), which eliminates step two from the goodwill impairment test. Under ASU 2017-04, an entity should recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value up to the amount of goodwill allocated to that reporting unit. This guidance will be effective for us in the first quarter of 2020 on a prospective basis, and early adoption is permitted. We do not expect the standard to have a material impact on our consolidated financial statements.

## **Note 2. Earnings per Share**

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

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

For the calculation of diluted EPS, net income attributable to common stockholders for basic EPS is adjusted by the effect of dilutive securities, such as awards under our equity compensation plans and inducement awards under separate non-plan restricted stock unit (RSU) award agreements. In addition, the computation of the diluted EPS of Class A common stock assumes the conversion of our Class B common stock to Class A common stock, while the diluted EPS of Class B common stock does not assume the conversion of those shares to Class A common stock. Diluted EPS attributable to common stockholders is computed by dividing the resulting net income attributable to common stockholders by the weighted-average number of fully diluted common shares outstanding.

Basic and dilutive securities in our basic and diluted EPS calculation for the three months ended March 31, 2017 also included the effect of earn-out shares which issuance was contingent upon completion of certain milestones. The performance milestones related to our earn-out shares were completed in the second quarter of 2016. Basic and dilutive securities in our basic and diluted EPS calculation for the three months ended March 31, 2016 excluded the effect of these earn-out shares because the milestones were not met as of March 31, 2016 .

Certain RSUs were excluded from the EPS calculation because the impact would be anti-dilutive. These excluded RSUs were not material for the three months ended March 31, 2017 and 2016 , respectively.

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

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

	Three Months Ended March 31,			
	2017		2016	
	Class A	Class B	Class A	Class B
<b>Basic EPS:</b>				
Numerator				
Net income	\$ 2,497	\$ 567	\$ 1,404	\$ 334
Less: Net income attributable to participating securities	4	1	5	1
Net income attributable to common stockholders	<u>\$ 2,493</u>	<u>\$ 566</u>	<u>\$ 1,399</u>	<u>\$ 333</u>
Denominator				
Weighted average shares outstanding	2,359	537	2,303	550
Less: Shares subject to repurchase	3	2	7	3
Number of shares used for basic EPS computation	<u>2,356</u>	<u>535</u>	<u>2,296</u>	<u>547</u>
Basic EPS	<u>\$ 1.06</u>	<u>\$ 1.06</u>	<u>\$ 0.61</u>	<u>\$ 0.61</u>
<b>Diluted EPS:</b>				
Numerator				
Net income attributable to common stockholders	\$ 2,493	\$ 566	\$ 1,399	\$ 333
Reallocation of net income attributable to participating securities	5	—	6	—
Reallocation of net income as a result of conversion of Class B to Class A common stock	566	—	333	—
Reallocation of net income to Class B common stock	—	2	—	4
Net income attributable to common stockholders for diluted EPS	<u>\$ 3,064</u>	<u>\$ 568</u>	<u>\$ 1,738</u>	<u>\$ 337</u>
Denominator				
Number of shares used for basic EPS computation	2,356	535	2,296	547
Conversion of Class B to Class A common stock	535	—	547	—
Weighted average effect of dilutive securities:				
Employee stock options	5	5	8	8
RSUs	44	3	49	7
Shares subject to repurchase	3	1	5	1
Earn-out shares	1	1	—	—
Number of shares used for diluted EPS computation	<u>2,944</u>	<u>545</u>	<u>2,905</u>	<u>563</u>
Diluted EPS	<u>\$ 1.04</u>	<u>\$ 1.04</u>	<u>\$ 0.60</u>	<u>\$ 0.60</u>

**Note 3. Cash and Cash Equivalents, and Marketable Securities**

The following table sets forth the cash and cash equivalents, and marketable securities (in millions):

	March 31, 2017	December 31, 2016
<b>Cash and cash equivalents:</b>		
Cash	\$ 1,427	\$ 1,364
Money market funds	5,112	5,409
U.S. government securities	296	1,463
U.S. government agency securities	120	667
Corporate debt securities	92	—
Certificate of deposits	57	—
Total cash and cash equivalents	7,104	8,903
<b>Marketable securities:</b>		
U.S. government securities	8,881	7,130
U.S. government agency securities	8,941	7,411
Corporate debt securities	7,380	6,005
Total marketable securities	25,202	20,546
Total cash and cash equivalents, and marketable securities	\$ 32,306	\$ 29,449

The gross unrealized gains or losses on our marketable securities as of March 31, 2017 and December 31, 2016 were not significant. In addition, the gross unrealized loss that had been in a continuous loss position for 12 months or longer was not significant as of March 31, 2017 and December 31, 2016. As of March 31, 2017, we considered the decreases in market value on our marketable securities to be temporary in nature and did not consider any of our investments to be other-than-temporarily impaired.

The following table classifies our marketable securities by contractual maturities (in millions):

	March 31, 2017
Due in one year	\$ 6,495
Due in one to five years	18,707
Total	\$ 25,202

#### Note 4. Fair Value Measurement

The following table summarizes, for assets or liabilities measured at fair value, the respective fair value and the classification by level of input within the fair value hierarchy (in millions):

Description	March 31, 2017	Fair Value Measurement at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Cash equivalents:</b>				
Money market funds	\$ 5,112	\$ 5,112	\$ —	\$ —
U.S. government securities	296	296	—	—
U.S. government agency securities	120	120	—	—
Corporate debt securities	92	—	92	—
Certificate of deposits	57	—	57	—
<b>Marketable securities:</b>				
U.S. government securities	8,881	8,881	—	—
U.S. government agency securities	8,941	8,941	—	—
Corporate debt securities	7,380	—	7,380	—
<b>Total cash equivalents and marketable securities</b>	<b>\$ 30,879</b>	<b>\$ 23,350</b>	<b>\$ 7,529</b>	<b>\$ —</b>

<b>Accrued expenses and other current liabilities:</b>				
Contingent consideration liability	\$ 326	\$ —	\$ 326	\$ —

Description	December 31, 2016	Fair Value Measurement at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Cash equivalents:</b>				
Money market funds	\$ 5,409	\$ 5,409	\$ —	\$ —
U.S. government securities	1,463	1,463	—	—
U.S. government agency securities	667	667	—	—
<b>Marketable securities:</b>				
U.S. government securities	7,130	7,130	—	—
U.S. government agency securities	7,411	7,411	—	—
Corporate debt securities	6,005	—	6,005	—
<b>Total cash equivalents and marketable securities</b>	<b>\$ 28,085</b>	<b>\$ 22,080</b>	<b>\$ 6,005</b>	<b>\$ —</b>

<b>Accrued expenses and other current liabilities:</b>				
Contingent consideration liability	\$ 242	\$ —	\$ 242	\$ —

We classify our cash equivalents and marketable securities within Level 1 or Level 2 because we use quoted market prices or alternative pricing sources and models utilizing market observable inputs to determine their fair value.

We classify our contingent consideration liability within Level 2 as the valuation inputs are based on quoted market prices and market observable data. During the three months ended March 31, 2017, we recognized an increase in the fair value of our contingent consideration liability of \$84 million, primarily due to the increase in the fair value of our common stock.

**Note 5. Property and Equipment**

Property and equipment consists of the following (in millions):

	March 31, 2017	December 31, 2016
Land	\$ 704	\$ 696
Buildings	3,648	3,109
Leasehold improvements	616	531
Network equipment	5,889	5,179
Computer software, office equipment and other	447	398
Construction in progress	1,728	1,890
Total	<u>13,032</u>	<u>11,803</u>
Less: Accumulated depreciation	(3,570)	(3,212)
Property and equipment, net	<u>\$ 9,462</u>	<u>\$ 8,591</u>

Construction in progress includes costs related to construction of data centers, office buildings, and network equipment infrastructure to support our data centers around the world. No interest was capitalized during the three months ended March 31, 2017 and 2016 .

**Note 6. Goodwill and Intangible Assets**

The changes in the carrying amount of goodwill for the three months ended March 31, 2017 are as follows (in millions):

Balance as of December 31, 2016	\$ 18,122
Effect of currency translation adjustment	4
Balance as of March 31, 2017	<u>\$ 18,126</u>

Intangible assets consist of the following (in millions):

	Weighted-Average Remaining Useful Lives (in years)	March 31, 2017			December 31, 2016		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Acquired users	4.5	\$ 2,056	\$ (752)	\$ 1,304	\$ 2,056	\$ (678)	\$ 1,378
Acquired technology	2.2	931	(566)	365	931	(518)	413
Acquired patents	6.2	785	(441)	344	785	(420)	365
Trade names	2.9	629	(321)	308	629	(293)	336
Other	3.1	162	(123)	39	162	(119)	43
Total intangible assets	4.2	<u>\$ 4,563</u>	<u>\$ (2,203)</u>	<u>\$ 2,360</u>	<u>\$ 4,563</u>	<u>\$ (2,028)</u>	<u>\$ 2,535</u>

Amortization expense of intangible assets was \$175 million and \$180 million for the three months ended March 31, 2017 and 2016 , respectively.

As of March 31, 2017, expected amortization expense for the unamortized acquired intangible assets for the next five years and thereafter is as follows (in millions):

The remainder of 2017	\$	512
2018		619
2019		526
2020		357
2021		265
Thereafter		81
<b>Total</b>	<b>\$</b>	<b>2,360</b>

#### **Note 7. Long-term Debt**

In May 2016, we entered into a five-year senior unsecured revolving credit facility that allows us to borrow up to \$2.0 billion. Any amounts outstanding under this facility will be due and payable on May 20, 2021. As of March 31, 2017, no amounts had been drawn down and we were in compliance with the covenants under this facility.

#### **Note 8. Commitments and Contingencies**

##### *Commitments*

###### *Leases*

We have entered into various non-cancelable operating lease agreements for certain of our offices, land, facilities, and data centers with original lease periods expiring between 2017 and 2038. We are committed to pay a portion of the related actual operating expenses under certain of these lease agreements. Certain of these arrangements have free rent periods or escalating rent payment provisions, and we recognize rent expense under such arrangements on a straight-line basis. Operating lease expense was \$74 million and \$64 million for the three months ended March 31, 2017 and 2016, respectively.

##### *Contingencies*

###### *Legal Matters*

Beginning on May 22, 2012, multiple putative class actions, derivative actions, and individual actions were filed in state and federal courts in the United States and in other jurisdictions against us, our directors, and/or certain of our officers alleging violation of securities laws or breach of fiduciary duties in connection with our initial public offering (IPO) and seeking unspecified damages. We believe these lawsuits are without merit, and we intend to continue to vigorously defend them. The vast majority of the cases in the United States, along with multiple cases filed against The NASDAQ OMX Group, Inc. and The Nasdaq Stock Market LLC (collectively referred to herein as NASDAQ) alleging technical and other trading-related errors by NASDAQ in connection with our IPO, were ordered centralized for coordinated or consolidated pre-trial proceedings in the U.S. District Court for the Southern District of New York. In a series of rulings in 2013 and 2014, the court denied our motion to dismiss the consolidated securities class action and granted our motions to dismiss the derivative actions against our directors and certain of our officers. On July 24, 2015, the court of appeals affirmed the dismissal of the derivative actions. On December 11, 2015, the court granted plaintiffs' motion for class certification in the consolidated securities action. On April 14, 2017, we filed a motion for summary judgment. Trial is scheduled to begin on October 23, 2017.

On April 27, 2016, we announced a proposal to create a new class of non-voting capital stock (Class C capital stock) and our intention to declare and pay a dividend of two shares of Class C capital stock for each outstanding share of Class A and Class B common stock (the Reclassification). Following our announcement of the Reclassification, beginning on April 29, 2016, multiple purported class action lawsuits were filed on behalf of our stockholders in the Delaware Court of Chancery against us, certain of our board of directors, and Mark Zuckerberg. The lawsuits have been consolidated under the caption *In re Facebook, Inc. Class C Reclassification Litig.*, C.A. No. 12286-VCL, and the consolidated complaint generally alleges that the defendants breached their fiduciary duties in connection with the Reclassification. Among other remedies, these lawsuits seek to enjoin the Reclassification as well as unspecified money damages, costs, and attorneys' fees. Trial is scheduled to begin on September 26, 2017. We believe that the lawsuits are without merit and intend to vigorously defend against all claims asserted.

We are also party to various legal proceedings and claims that arise in the ordinary course of business. Among these pending matters, one case is currently scheduled for trial in the second quarter of 2017. An entity named Social Ranger LLC sued us for alleged violations of the United States antitrust laws in connection with virtual currency services. The complaint was filed in the



U.S. District Court for the District of Delaware and seeks treble damages and an injunction. The court denied our motion to dismiss; our motion for summary judgment is pending. We believe this lawsuit is without merit, and we intend to vigorously defend against all claims asserted. Trial is scheduled to begin on June 12, 2017. Because the outcome of litigation is inherently uncertain, we believe it is reasonably possible that we may incur a loss in connection with this matter. However, we do not believe a material loss is probable and we are unable to estimate a reasonable range of loss, if any, that could result were there to be an adverse final decision, and we therefore have not accrued a liability for this matter. If an unfavorable outcome were to occur in this case, it is possible that the impact could be material to our results in the period(s) in which any such outcome becomes probable and estimable.

With respect to our other outstanding legal matters, we believe that the amount or estimable range of reasonably possible loss will not, either individually or in the aggregate, have a material adverse effect on our business, consolidated financial position, results of operations, or cash flows. However, the outcome of litigation is inherently uncertain. Therefore, if one or more of these legal matters were resolved against us for amounts in excess of management's expectations, our results of operations and financial condition, including in a particular reporting period, could be materially adversely affected.

For information regarding income tax contingencies, see Note 10 — Income Taxes.

## **Note 9. Stockholders' Equity**

### ***Reclassification***

In April 2016, our board of directors approved the Reclassification by approving amendments to our restated certificate of incorporation (the New Certificate) that would, among other things, create a new non-voting Class C capital stock. The Class C capital stock will have the same rights and powers, rank equally (including as to dividends and distributions, mergers or similar business combinations, and in connection with any liquidation, dissolution, or winding up of the corporation), share ratably and be identical in all other respects and as to all matters to the shares of Class A and Class B common stock, except for voting rights and as expressly provided in the New Certificate. The New Certificate was approved by our stockholders on June 20, 2016. As of March 31, 2017, the New Certificate was not yet effective.

As part of the Reclassification, we announced that our board of directors intends to issue two shares of the Class C capital stock as a one-time stock dividend for each share of Class A and Class B common stock outstanding. The record and payment dates for this dividend will be determined by our board of directors in its discretion and there can be no assurance as to the timing of such dates. For accounting purposes, we expect this dividend will be treated as a stock split in the form of a dividend.

### ***Share Repurchase Program***

In November 2016, our board of directors authorized a \$6.0 billion share repurchase program of our Class A common stock, beginning in 2017 and which does not have an expiration date. The timing and actual number of shares repurchased depend on a variety of factors, including price, general business and market conditions, and other investment opportunities through open market purchases or privately negotiated transactions, including through the use of trading plans intended to qualify under Rule 10b5-1 under the Exchange Act. During the three months ended March 31, 2017, we repurchased and subsequently retired approximately 2 million shares of our Class A common stock for an aggregate amount of approximately \$228 million.

### ***Share-based Compensation Plans***

We maintain two share-based employee compensation plans: the 2012 Equity Incentive Plan (2012 Plan) and the 2005 Stock Plan (collectively, Stock Plans). Our 2012 Plan serves as the successor to our 2005 Stock Plan and provides for the issuance of incentive and nonstatutory stock options, restricted stock awards, stock appreciation rights, RSUs, performance shares, and stock bonuses to qualified employees, directors and consultants. Outstanding awards under the 2005 Stock Plan continue to be subject to the terms and conditions of the 2005 Stock Plan. Our board of directors approved the amendment and restatement of our 2012 Plan (the Amended 2012 Plan), which was approved by our stockholders and adopted by us in June 2016.

We initially reserved 25 million shares of our Class A common stock for issuance under our 2012 Plan. Following the date of the contemplated stock dividend of Class C capital stock described above, if it is declared and paid, the shares reserved and available for issuance under our Amended 2012 Plan will be shares of the new Class C capital stock, except for shares reserved for awards outstanding immediately prior to the payment of the dividend. The number of shares reserved for issuance under our Amended 2012 Plan increases automatically on January 1 of each of the calendar years during the term of the Amended 2012 Plan, which will continue through and including April 2026 unless terminated earlier by our board of directors or a committee thereof, by a number of shares of Class C capital stock (and prior to the date of the payment of the stock dividend described above, Class A common stock) equal to the lesser of (i) 2.5% of the total issued and outstanding shares of our Class A common stock and

Class C capital stock as of the immediately preceding December 31st or (ii) a number of shares determined by our board of directors. Our board of directors elected not to increase the number of shares reserved for issuance in 2017.

The following table summarizes the activities of stock option awards under the Stock Plans for the three months ended March 31, 2017 :

	Shares Subject to Options Outstanding			
	Number of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (1) (in millions)
Balance as of December 31, 2016	5,687	\$ 7.78		
Stock options exercised	(1,547)	5.12		
Balance as of March 31, 2017	4,140	\$ 8.78	2.9	\$ 552
Stock options exercisable as of March 31, 2017	3,122	\$ 6.85	2.7	\$ 422

(1) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying stock option awards and the official closing price of our Class A common stock of \$142.05, as reported on the NASDAQ Global Select Market on March 31, 2017.

The following table summarizes the activities for our unvested RSUs for the three months ended March 31, 2017 :

	Unvested RSUs (1)	
	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value
Unvested at December 31, 2016	98,586	\$ 82.99
Granted	25,191	139.29
Vested	(12,743)	76.84
Forfeited	(2,194)	90.11
Unvested at March 31, 2017	108,840	\$ 96.59

(1) Unvested shares include inducement awards issued in connection with an acquisition in 2014 and are subject to the terms, restrictions, and conditions of separate non-plan RSU award agreements.

The fair value as of the respective vesting dates of RSUs that vested during the three months ended March 31, 2017 and 2016 was \$1.70 billion and \$1.45 billion, respectively.

As of March 31, 2017, there was \$9.48 billion of unrecognized share-based compensation expense, of which (i) \$9.31 billion was related to RSUs, and (ii) \$161 million was related to restricted shares, shares related to our contingent consideration with performance conditions that were met in the second quarter of 2016 but are still subject to service condition, and stock options. This unrecognized compensation expense is expected to be recognized over a weighted-average period of approximately three years.

#### Note 10. Income Taxes

Our tax provision for interim periods is determined using an estimate of our annual effective tax rate, adjusted for discrete items arising in that quarter. In each quarter, we update our estimate of the annual effective tax rate, and if our estimated annual effective tax rate changes, we make a cumulative adjustment in that quarter. Our quarterly tax provision and our quarterly estimate of our annual effective tax rate are subject to significant volatility due to several factors, including our ability to accurately predict the proportion of our income (loss) before provision for income taxes in multiple jurisdictions, the tax effects of our share-based compensation, and the effects of acquisitions and the integration of those acquisitions.

Our 2017 effective tax rate differs from the U.S. statutory rate primarily due to a portion of our income before provision for income taxes being earned in jurisdictions with tax rates lower than the U.S. statutory rate where we plan to indefinitely reinvest a certain portion of those earnings, as well as the recognition of excess tax benefits from share-based compensation.

Our gross unrecognized tax benefits were \$3.37 billion and \$3.31 billion as of March 31, 2017 and December 31, 2016, respectively. If the gross unrecognized tax benefits as of March 31, 2017 were realized in a subsequent period, this would result in a tax benefit of \$2.64 billion within our provision of income taxes at such time. Our existing tax positions will continue to

generate an increase in unrecognized tax benefits in subsequent periods.

In July 2016, we received a Statutory Notice of Deficiency (Notice) from the IRS related to transfer pricing with our foreign subsidiaries in conjunction with the examination of the 2010 tax year. While the Notice applies only to the 2010 tax year, the IRS states that it will also apply its position to tax years subsequent to 2010, which, if the IRS prevails in its position, could result in an additional federal tax liability of an estimated, aggregate amount of approximately \$3.0 billion to \$5.0 billion in excess of the amounts in our originally filed U.S. return, plus interest and any penalties asserted. We do not agree with the position of the IRS and have filed a petition in the United States Tax Court challenging the Notice. We have previously accrued an estimated unrecognized tax benefit consistent with the guidance in ASC 740 that is lower than the potential additional federal tax liability of \$3.0 billion to \$5.0 billion in excess of the amounts in our originally filed U.S. return, plus interest and penalties. If the IRS prevails in the assessment of additional tax due based on its position, the assessed tax, interest and penalties, if any, could have a material adverse impact on our financial position, results of operations or cash flows. As of March 31, 2017, we have not resolved this matter and proceedings continue in the United States Tax Court.

We are subject to taxation in the United States and various other state and foreign jurisdictions. The material jurisdictions in which we are subject to potential examination include the United States and Ireland. We are under examination by the Internal Revenue Service (IRS) for our 2011 through 2013 tax years. Our 2014 and subsequent years remain open to examination by the IRS. Our 2012 and subsequent years remain open to examination in Ireland.

We believe that adequate amounts have been reserved for any adjustments that may ultimately result from these examinations. Although the timing of the resolution, settlement, and closure of any audits is highly uncertain, it is reasonably possible that the balance of gross unrecognized tax benefits could significantly change in the next 12 months. Given the number of years remaining that are subject to examination, we are unable to estimate the full range of possible adjustments to the balance of gross unrecognized tax benefits. However, we do not anticipate a significant impact to such amounts within the next 12 months.

#### Note 11. Geographical Information

Revenue by geography is based on the billing address of the marketer or developer. The following tables set forth revenue and property and equipment, net by geographic area (in millions):

	Three Months Ended March 31,	
	2017	2016
Revenue:		
United States	\$ 3,527	\$ 2,509
Rest of the world <sup>(1)</sup>	4,505	2,873
Total revenue	<u>\$ 8,032</u>	<u>\$ 5,382</u>

(1) No individual country, other than disclosed above, exceeded 10% of our total revenue for any period presented.

	March 31,	December 31,
	2017	2016
Property and equipment, net:		
United States	\$ 7,428	\$ 6,793
Rest of the world <sup>(1)</sup>	2,034	1,798
Total property and equipment, net	<u>\$ 9,462</u>	<u>\$ 8,591</u>

(1) No individual country, other than disclosed above, exceeded 10% of our total property and equipment, net for any period presented.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*You should read the following discussion of our financial condition and results of operations in conjunction with our condensed consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q and with our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the Securities and Exchange Commission. In addition to our historical condensed 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 Quarterly Report on Form 10-Q, particularly in Part II, Item 1A, "Risk Factors." For a discussion of limitations in the measurement of certain of our user metrics, see the section entitled "Limitations of Key Metrics and Other Data" in this Quarterly Report on Form 10-Q.*

*Certain revenue information in the section entitled "—Three Months Ended March 31, 2017 and 2016—Revenue — Foreign Exchange Impact on Revenue" is presented on a constant currency basis. This information is a non-GAAP financial measure. To calculate revenue on a constant currency basis, we translated revenue for the three months ended March 31, 2017 using the prior year's monthly exchange rates for our settlement currencies other than the U.S. dollar. This non-GAAP financial measure is not intended to be considered in isolation or as a substitute for, or superior to, financial information prepared and presented in accordance with GAAP. This measure may be different from non-GAAP financial measures used by other companies, limiting its usefulness for comparison purposes. Moreover, presentation of revenue on a constant currency basis is provided for year-over-year comparison purposes, and investors should be cautioned that the effect of changing foreign currency exchange rates has an actual effect on our operating results. We believe this non-GAAP financial measure provides investors with useful supplemental information about the financial performance of our business, enable comparison of financial results between periods where certain items may vary independent of business performance, and allows for greater transparency with respect to key metrics used by management in operating our business.*

### Executive Overview of First Quarter Results

Our key user metrics and financial results for the first quarter of 2017 are as follows:

#### User growth:

- Daily active users (DAUs) were 1.28 billion on average for March 2017, an increase of 18% year-over-year.
- Monthly active users (MAUs) were 1.94 billion as of March 31, 2017, an increase of 17% year-over-year.

#### Financial results:

- Revenue was \$8.03 billion, up 49% year-over-year, and ad revenue was \$7.86 billion, up 51% year-over-year.
- Total costs and expenses were \$4.71 billion.
- Income from operations was \$3.33 billion.
- Net income was \$3.06 billion with diluted earnings per share of \$1.04.
- Capital expenditures were \$1.27 billion.
- Effective tax rate was 10%.
- Cash and cash equivalents and marketable securities were \$32.31 billion as of March 31, 2017.
- Headcount was 18,770 as of March 31, 2017, an increase of 38% year-over-year.

In the first quarter of 2017, we continued to focus on our three main revenue growth priorities: (i) helping businesses expand their use of our mobile products, (ii) developing innovative ad products that help businesses get the most of their ad campaigns, and (iii) making our ads more relevant and effective through our targeting capabilities and outcome-based measurement.

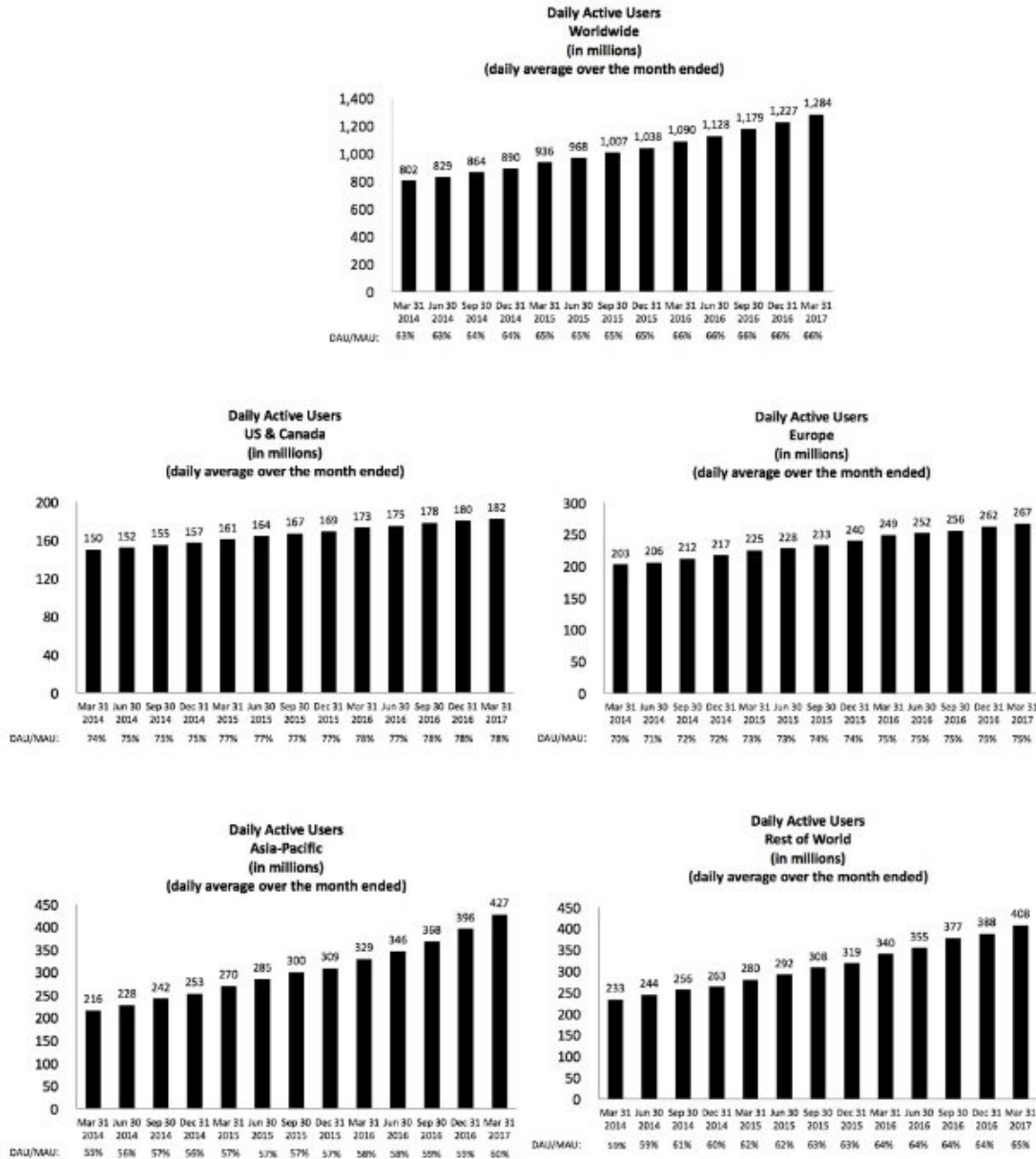
We continued to invest, based on our roadmap, in: (i) our most developed ecosystem, the Facebook app and platform as well as video, (ii) driving growth and building ecosystems around our products and features that already have significant user bases, such as Messenger, Instagram, and WhatsApp, and (iii) long-term technology initiatives that we believe will further our mission to connect the world, such as augmented reality, virtual reality and artificial intelligence. We intend to continue to invest based on this roadmap and we expect these investments and our increasingly global scale will drive significant overall year-over-year expense growth compared to 2016. In addition, we anticipate our expenses in 2017 will continue to grow as we execute on priorities such as (i) hiring top engineering talent, (ii) investing in research and development, content, and sales and marketing efforts, and (iii) expanding our data center capacity and office facilities to support our rapid growth.

## Trends in Our User Metrics

The numbers for our key metrics, our DAUs, MAUs, and average revenue per user (ARPU) do not include Instagram, WhatsApp, or Oculus users unless they would otherwise qualify as such users, respectively, based on their other activities on Facebook. In addition, other user engagement metrics do not include Instagram, WhatsApp, or Oculus unless otherwise specifically stated.

Trends in the number of users affect our revenue and financial results by influencing the number of ads we are able to show, the value of our ads to marketers, the volume of Payments transactions, as well as our expenses and capital expenditures. Substantially all of our daily and monthly active users (as defined below) access Facebook on mobile devices.

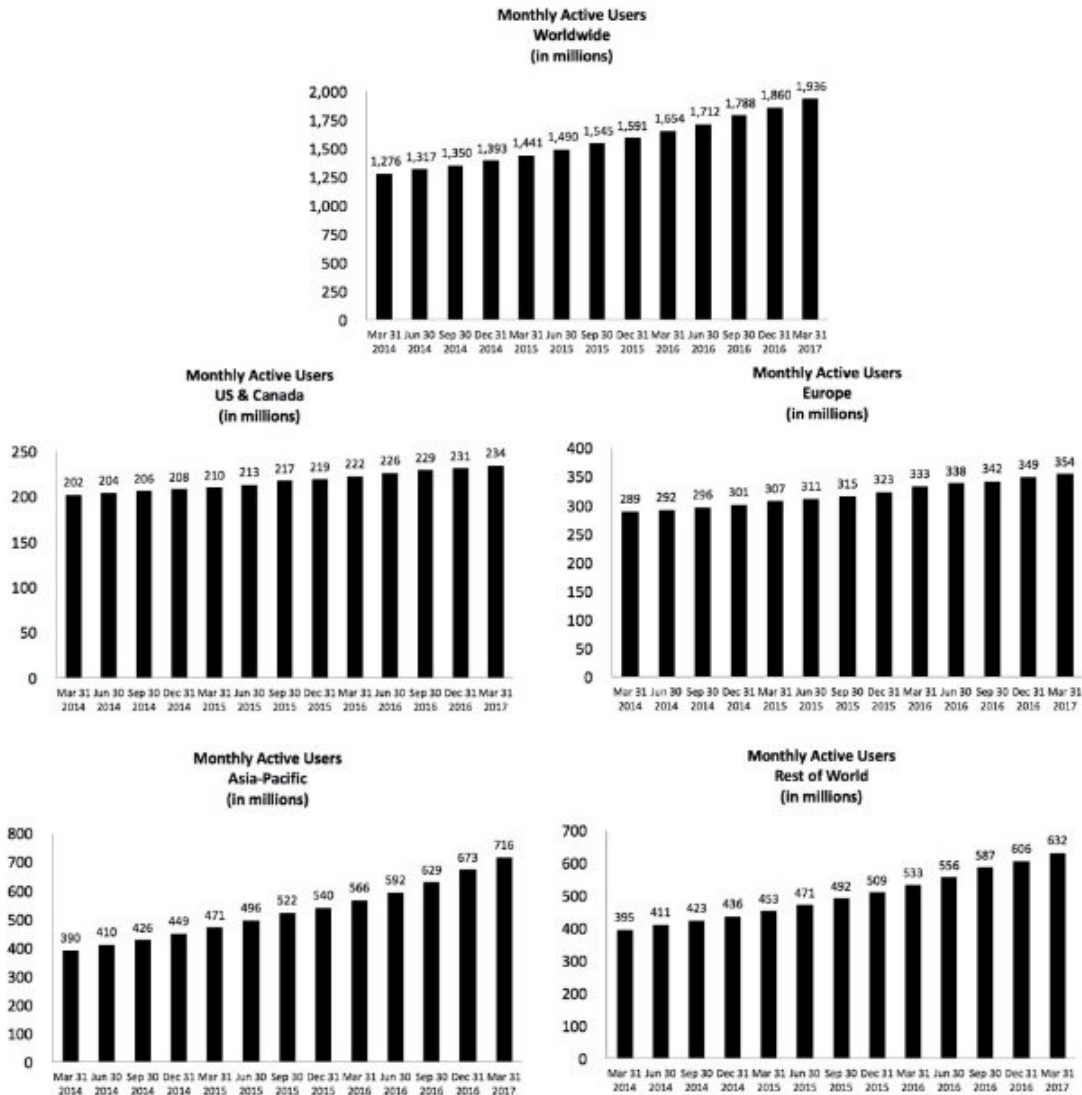
- Daily Active Users (DAUs)** . We define a daily active user as a registered Facebook user who logged in and visited Facebook through our website or a mobile device, or used our Messenger application (and is also a registered Facebook user), on a given day. We view DAUs, and DAUs as a percentage of MAUs, as measures of user engagement.



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

Worldwide DAUs increased 18% to 1.28 billion on average during March 2017 from 1.09 billion during March 2016 . We experienced growth in DAUs across major markets, including India, Indonesia, and Brazil.

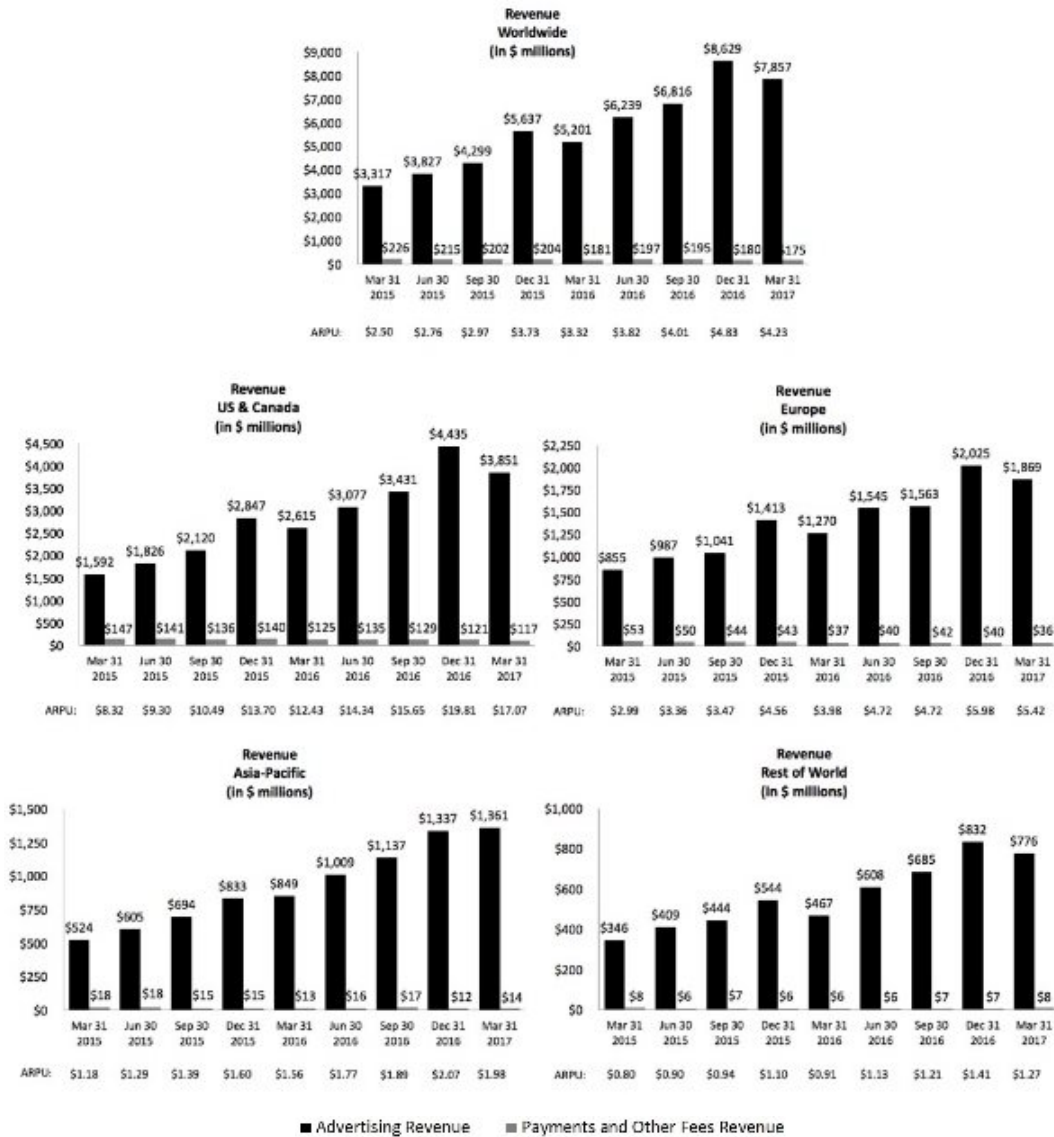
- Monthly Active Users (MAUs)** . We define a monthly active user as a registered Facebook user who logged in and visited Facebook through our website or a mobile device, or used our Messenger application (and is also a registered Facebook user), in the last 30 days as of the date of measurement. MAUs are a measure of the size of our global active user community.



As of March 31, 2017 , we had 1.94 billion MAUs, an increase of 17% from March 31, 2016 . Users in India, Indonesia, and Brazil represented key sources of growth in the first quarter of 2017 , relative to the same period in 2016 .

## Trends in Our Monetization by User Geography

We calculate our revenue by user geography based on our estimate of the geography in which ad impressions are delivered, virtual and digital goods are purchased, or virtual reality platform devices are shipped. We define ARPU as our total revenue in a given geography during a given quarter, divided by the average of the number of MAUs in the geography at the beginning and end of the quarter. While ARPU includes all sources of revenue, the number of MAUs used in this calculation only includes users of Facebook and Messenger as described in the definition of MAU above. Revenue from users who are not also Facebook or Messenger MAUs was not material. The geography of our users affects our revenue and financial results because we currently monetize users in different geographies at different average rates. Our revenue and ARPU in regions such as United States & Canada and Europe are relatively higher primarily due to the size and maturity of those online and mobile advertising markets. For example, ARPU in the first quarter of 2017 in the United States & Canada region was more than eight times higher than in the Asia-Pacific region.



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 condensed consolidated financial statements where revenue is geographically apportioned based on the location of the marketer or developer. We discovered an error in the algorithm we used to attribute our revenue by user geography in late 2015. While this issue did not affect our overall worldwide revenue, it did affect our attribution of revenue to different geographic regions. The fourth quarter of 2015 revenue by user geography and ARPU amounts for all regions were adjusted to reflect this reclassification.

During the first quarter of 2017 , worldwide ARPU was \$4.23 , an increase of 27% from the first quarter of 2016 . Over this period, ARPU increased by 37% in United States & Canada, 36% in Europe, 27% in Asia-Pacific, and 40% in Rest of World. ARPU in the first quarter of 2017 declined by 12% from the fourth quarter of 2016. We believe the sequential quarterly decline was driven by seasonal trends, which also affected ARPU trends from the fourth quarter of 2015 to the first quarter of 2016, during which period ARPU declined by 11%. In addition, user growth was more rapid in geographies with relatively lower ARPU, such as Asia-Pacific and Rest of World. We expect that user growth in the future will be primarily concentrated in those regions where ARPU is relatively lower, 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.



## Components of Results of Operations

### Revenue

**Advertising.** We generate substantially all of our revenue from advertising. Our advertising revenue is generated by displaying ad products on Facebook, Instagram, and third-party affiliated websites or mobile applications. Marketers pay for ad products either directly or through their relationships with advertising agencies, based on the number of clicks made by people, the number of actions taken by people, or the number of impressions delivered. We recognize revenue from the delivery of click-based ads in the period in which a person clicks on the content, and action-based ads in the period in which a person takes the action the marketer contracted for. We recognize revenue from the display of impression-based ads in the contracted period in which the impressions are delivered. Impressions are considered delivered when an ad is displayed to people. The number of ads we show is subject to methodological changes as we continue to evolve our ads business and the structure of our ads products. We calculate price per ad as total ad revenue divided by the number of ads delivered, representing the effective price paid per impression by a marketer regardless of their desired objective such as impression, click, or action. For advertising revenue arrangements where we are not the primary obligor, we recognize revenue on a net basis.

**Payments and other fees.** We enable Payments from people to purchase virtual and digital goods from our developers. People can transact and make payments on the Facebook website by using debit and credit cards, PayPal, mobile phone payments, gift cards, or other methods. We receive a fee from developers when people make purchases in these applications using our Payments infrastructure. We recognize revenue net of amounts remitted to our developers. We have mandated the use of our Payments infrastructure for game applications on Facebook, and fees related to Payments are generated almost exclusively from games. Our other fees revenue, which has not been significant in recent periods, consists primarily of revenue from the delivery of virtual reality platform devices and related platform sales, and our ad serving and measurement products.

### 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, salaries, benefits, and share-based compensation for employees on our operations teams, and energy and bandwidth costs. Cost of revenue also includes credit card and other transaction fees related to processing customer transactions, costs associated with data partner arrangements, amortization of intangible assets, and cost of virtual reality platform device inventory sold.

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

**Marketing and sales.** Our marketing and sales expenses consist of salaries, share-based compensation, and benefits for our employees engaged in sales, sales support, marketing, business development, and customer service functions. Our marketing and sales expenses also include marketing and promotional expenditures, as well as amortization of intangible assets.

**General and administrative.** The majority of our general and administrative expenses consist of salaries, benefits, and share-based compensation for certain of our executives as well as our legal, finance, human resources, corporate communications and policy, and other administrative employees. In addition, general and administrative expenses include legal related costs and professional services.

## Results of Operations

The following tables set forth our condensed consolidated statements of income data:

	Three Months Ended March 31,	
	2017	2016
	(in millions)	
Revenue	\$ 8,032	\$ 5,382
Costs and expenses:		
Cost of revenue	1,159	838
Research and development	1,834	1,343
Marketing and sales	1,057	826
General and administrative	655	365
Total costs and expenses	4,705	3,372
Income from operations	3,327	2,010
Interest and other income, net	81	56
Income before provision for income taxes	3,408	2,066
Provision for income taxes	344	328
Net income	\$ 3,064	\$ 1,738

Share-based compensation expense included in costs and expenses:

	Three Months Ended March 31,	
	2017	2016
	(in millions)	
Cost of revenue	\$ 34	\$ 22
Research and development	670	586
Marketing and sales	96	82
General and administrative	67	56
Total share-based compensation expense	\$ 867	\$ 746

The following tables set forth our condensed consolidated statements of income data (as a percentage of revenue):

	Three Months Ended March 31,	
	2017	2016
Revenue	100%	100%
Costs and expenses:		
Cost of revenue	14	16
Research and development	23	25
Marketing and sales	13	15
General and administrative	8	7
Total costs and expenses	59	63
Income from operations	41	37
Interest and other income, net	1	1
Income before provision for income taxes	42	38
Provision for income taxes	4	6
Net income	38%	32%

Share-based compensation expense included in costs and expenses (as a percentage of revenue):

	Three Months Ended March 31,	
	2017	2016
Cost of revenue	—%	—%
Research and development	8	11
Marketing and sales	1	2
General and administrative	1	1
Total share-based compensation expense	11%	14%

### Three Months Ended March 31, 2017 and 2016

#### Revenue

	Three Months Ended March 31,		
	2017	2016	% change
	<i>(in millions, except for percentages)</i>		
Advertising	\$ 7,857	\$ 5,201	51 %
Payments and other fees	175	181	(3)%
Total revenue	\$ 8,032	\$ 5,382	49 %

Revenue in the first quarter of 2017 increased \$2.65 billion , or 49% , compared to the same period in 2016 . The increase was due to an increase in advertising revenue.

The most important factor driving advertising revenue growth was an increase in revenue from ads in News Feed. For the first quarter of 2017 , we estimate that mobile advertising revenue represented approximately 85% of total advertising revenue, as compared with approximately 82% in the same period in 2016 . Factors that influenced our advertising revenue growth in the first quarter of 2017 included (i) an increase in demand for our ad inventory, in part driven by an increase in the number of marketers actively advertising on Facebook, (ii) an increase in user growth and engagement, and (iii) an increase in the number and frequency of ads displayed in News Feed, as well as the quality, relevance, and performance of those ads. However, we anticipate increases in the number and frequency of ads displayed in News Feed will be a less significant driver of our revenue growth in the future.

During the first quarter of 2017 , as compared to the same period in 2016 , the average price per ad increased by 14% and the number of ads delivered increased by 32%. The increase in average price per ad was driven by an increase in demand for our ad inventory while the increase in the ads delivered was driven by the same factors that influenced our advertising revenue growth.

Payments and other fees revenue in the first quarter of 2017 decreased \$6 million , or 3% , compared to the same period in 2016 . The decrease in Payments and other fees revenue was mostly due to decreased Payments revenue from games played on personal computers. We anticipate Payments and other fees revenue will continue to decline in 2017.

#### Foreign Exchange Impact on Revenue

The general strengthening of the U.S. dollar relative to certain foreign currencies from the first quarter of 2016 compared to the same period in 2017 had an unfavorable impact on our revenue. If we had translated revenue for the three months ended March 31, 2017 using the prior year's monthly exchange rates for our settlement currencies other than the U.S. dollar, our total revenue and advertising revenue would have been \$8.05 billion and \$7.88 billion , respectively. Using these constant rates, both revenue and advertising revenue would have been \$22 million higher than actual revenue and advertising revenue for the first quarter of 2017 .

### Cost of revenue

	Three Months Ended March 31,		
	2017	2016	% change
	<i>(in millions, except for percentages)</i>		
Cost of revenue	\$ 1,159	\$ 838	38%
Percentage of revenue	14%	16%	

Cost of revenue in the first quarter of 2017 increased \$321 million , or 38% , compared to the same period in 2016 . The majority of the increase was due to an increase in operational expenses related to our data centers and technical infrastructure and, to a lesser extent, higher costs associated with ads payment processing and various partnership agreements.

### Research and development

	Three Months Ended March 31,		
	2017	2016	% change
	<i>(in millions, except for percentages)</i>		
Research and development	\$ 1,834	\$ 1,343	37%
Percentage of revenue	23%	25%	

Research and development expenses in the first quarter of 2017 increased \$491 million , or 37% , compared to the same period in 2016 . The majority of the increase was due to an increase in payroll and benefits as a result of a 44% increase in employee headcount from March 31, 2016 to March 31, 2017 in engineering and other technical functions. Additionally, the impact from the change in fair value of our contingent consideration liability and our equipment and related expenses to support our research and development efforts increased in the first quarter of 2017 , compared to the same period in 2016 .

### Marketing and sales

	Three Months Ended March 31,		
	2017	2016	% change
	<i>(in millions, except for percentages)</i>		
Marketing and sales	\$ 1,057	\$ 826	28%
Percentage of revenue	13%	15%	

Marketing and sales expenses in the first quarter of 2017 increased \$231 million , or 28% , compared to the same period in 2016 . The majority of the increase was due to payroll and benefits expenses as a result of a 30% increase in employee headcount from March 31, 2016 to March 31, 2017 in our marketing and sales functions, and increases in our consulting and other professional service fees. Additionally, our marketing expenses increased \$63 million in the first quarter of 2017 , compared to the same period in 2016 .

### General and administrative

	Three Months Ended March 31,		
	2017	2016	% change
	<i>(in millions, except for percentages)</i>		
General and administrative	\$ 655	\$ 365	79%
Percentage of revenue	8%	7%	

General and administrative expenses in the first quarter of 2017 increased \$290 million , or 79% , compared to the same period in 2016 . The majority of the increase was due to an increase in legal related costs, and to a lesser extent, payroll and benefits expenses as a result of a 35% increase in employee headcount from March 31, 2016 to March 31, 2017 in general and administrative functions.

### *Interest and other income, net*

	Three Months Ended March 31,		
	2017	2016	% change
	<i>(in millions, except for percentages)</i>		
Interest income, net	\$ 67	\$ 27	148 %
Other income, net	14	29	(52)%
Interest and other income, net	\$ 81	\$ 56	45 %

Interest and other income, net in the first quarter of 2017 increased \$25 million compared to the same period in 2016. Interest income, net increased mostly due to increases in interest income driven by higher invested cash balances and interest rates. In addition, the decrease in other income, net was mostly due to foreign exchange impact resulting from the periodic re-measurement of our foreign currency balances.

### *Provision for income taxes*

	Three Months Ended March 31,		
	2017	2016	% change
	<i>(in millions, except for percentages)</i>		
Provision for income taxes	\$ 344	\$ 328	5%
Effective tax rate	10%	16%	

Our provision for income taxes in the first quarter of 2017 increased \$16 million, or 5%, compared to the same period in 2016, primarily due to an increase in income before provision for income taxes.

Our effective tax rate in the first quarter of 2017 decreased compared to the same period in 2016, primarily due to increases in income before provision for income taxes being earned in jurisdictions with a tax rate lower than that of the U.S. statutory rate where we plan to indefinitely reinvest a certain portion of those earnings, partially offset by a decrease in the tax rate benefit from share-based compensation. In the first quarter of 2017, excess tax benefits recognized from share-based compensation decreased our provision for income taxes by \$302 million and our effective tax rate by 9%, as compared to the U.S. statutory rate. For comparison, in the first quarter of 2016, excess tax benefits recognized from share-based compensation decreased our provision for income taxes by \$226 million and our effective tax rate by 11%, as compared to the U.S. statutory rate.

*Effective Tax Rate Items.* Our effective tax rate in the future will depend upon the proportion of our income before provision for income taxes earned in the United States and in jurisdictions with a tax rate lower than the U.S. statutory rate where we plan to indefinitely reinvest a certain portion of those earnings, as well as a number of other factors, including tax benefits from share-based compensation, tax effects of integrating intellectual property from acquisitions, settlement of tax contingency items, and the impact of new legislation.

The portion of our income before provision for income taxes earned in jurisdictions with a tax rate lower than the U.S. statutory rate will depend upon the proportion of revenue and costs associated with the respective jurisdictions. Our ability to indefinitely reinvest those future earnings will depend upon the amount, location, and cost of deploying those earnings to where they are needed by the business.

Integrating intellectual property from acquisitions into our business generally involves intercompany transactions that have the impact of increasing our provision for income taxes. Consequently, our provision for income taxes and our effective tax rate may initially increase following an acquisition and integration. The magnitude of this impact will depend upon the specific type, size, and taxing jurisdictions of the intellectual property as well as the relative contributions to income in subsequent periods.

The tax effects of the accounting for share-based compensation will increase or decrease our effective tax rate based upon the difference between our share-based compensation expense and the benefits taken on our tax return which depends upon the share price at the time of employee award vesting.

We recognize excess tax benefits on a discrete basis and we anticipate that our effective tax rate will vary from quarter to quarter depending on our share price in each period. If our share price remains constant to the May 1, 2017 price, we anticipate that our effective tax rate will increase in the remaining quarters throughout the year and our full year rate will be higher than the rate in the first quarter.

*Unrecognized Tax Benefits.* As of March 31, 2017, our net unrecognized tax benefits, which were accrued as other liabilities, were \$2.52 billion, and were predominantly accrued for uncertainties related to transfer pricing with our foreign subsidiaries, which includes licensing of intellectual property, providing services, and other transactions, as well as for uncertainties with our research tax credits. The ultimate settlement of the liabilities will depend upon resolution of tax audits, litigation, or events that would otherwise change the assessment of such items. Based upon the status of litigation described below and the current status of tax audits in various jurisdictions, we do not anticipate a significant impact to such amounts within the next 12 months.

In July 2016, we received a Statutory Notice of Deficiency (Notice) from the IRS related to transfer pricing with our foreign subsidiaries in conjunction with the examination of the 2010 tax year. While the Notice applies only to the 2010 tax year, the IRS states that it will also apply its position for tax years subsequent to 2010, which, if the IRS prevails in its position, could result in an additional federal tax liability of an estimated aggregated amount of approximately \$3.0 billion to \$5.0 billion in excess of the amounts in our originally filed U.S. return, plus interest and any penalties asserted. We do not agree with the position of the IRS and have filed a petition in the United States Tax Court challenging the Notice. We have previously accrued an estimated unrecognized tax benefit consistent with the guidance in ASC 740 that is lower than the potential additional federal tax liability of \$3.0 billion to \$5.0 billion in excess of the amounts in our originally filed U.S. return, plus interest and penalties. If the IRS prevails in the assessment of additional tax due based on its position, the assessed tax, interest, and penalties, if any, could have a material adverse impact on our financial position, results of operations, or cash flows. As of March 31, 2017, we have not resolved this matter and proceedings continue in the United States Tax Court. We believe that adequate amounts have been reserved for any adjustments that may ultimately result from these examinations.

We expect to continue to accrue unrecognized tax benefits for certain recurring tax positions and anticipate that the amount for future quarters accrued will be similar to the first quarter of 2017. Absent any unanticipated event, we do not expect our unrecognized tax benefits will have a significant impact on our effective tax rate in 2017.

## **Liquidity and Capital Resources**

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 mostly of cash on deposit with banks, investments in money market funds, and investments in U.S. government agency securities, U.S. government securities, and corporate debt securities. Cash and cash equivalents and marketable securities were \$32.31 billion as of March 31, 2017, an increase of \$2.86 billion from December 31, 2016, mostly due to \$5.06 billion of cash generated from operations, partially offset by \$1.27 billion for purchases of property and equipment, \$771 million of taxes paid related to net share settlement of equity awards, and \$228 million for repurchases of our Class A common stock.

Cash paid for income taxes (net of refunds) was \$664 million for the first quarter of 2017. As of March 31, 2017, our federal net operating loss carryforward was \$3.39 billion, and we anticipate that none of this amount will be utilized to offset our federal taxable income in 2017. As of March 31, 2017, we had \$94 million of federal tax credits, of which none will be available to offset our federal tax liabilities in 2017.

In May 2016, we entered into a five-year senior unsecured revolving credit facility that allows us to borrow up to \$2.0 billion. Any amounts outstanding under this facility will be due and payable on May 20, 2021. As of March 31, 2017, no amounts had been drawn down and we were in compliance with the covenants under this credit facility.

In November 2016, our board of directors authorized a \$6.0 billion share repurchase program of our Class A common stock commencing in 2017 and does not have an expiration date. The timing and actual number of shares repurchased depend on a variety of factors, including price, general business and market conditions, and other investment opportunities, through open market purchases or privately negotiated transactions, including through the use of trading plans intended to qualify under Rule 10b5-1 under the Securities Exchange Act of 1934 (Exchange Act). During the three months ended March 31, 2017, we repurchased and subsequently retired approximately 2 million shares of our Class A common stock for an aggregate amount of approximately \$228 million.

In January 2017, we began funding withholding taxes due on employee equity awards by net share settlement, rather than our previous approach of requiring employees to sell shares of our common stock to cover taxes upon vesting of such awards. In the first quarter of 2017, we paid \$771 million of taxes related to the net share settlement of equity awards.

As of March 31, 2017, \$7.48 billion of the \$32.31 billion in cash and cash equivalents and marketable securities was held by our foreign subsidiaries. We have provided residual taxes for the portion of earnings in jurisdictions where we do not intend to indefinitely reinvest such earnings of the local subsidiary.

We currently anticipate that our available funds, credit facility, and cash flow from operations, will be sufficient to meet our operational cash needs for the foreseeable future.

### ***Cash Provided by Operating Activities***

Cash flow from operating activities during the first quarter of 2017 mostly consisted of net income, adjusted for certain non-cash items, such as share-based compensation expense of \$867 million and total depreciation and amortization of \$671 million. The increase in cash flow from operating activities during the first quarter of 2017, compared to the same period in 2016, was mostly due to an increase in net income, as adjusted for depreciation and amortization and share-based compensation expense.

### ***Cash Used in Investing Activities***

Cash used in investing activities was \$5.89 billion for the first quarter of 2017, mostly due to \$4.63 billion for net purchases of marketable securities, and \$1.27 billion for capital expenditures as we continued to invest in data centers, servers, office buildings, and network infrastructure. The increase in cash used in investing activities during the first quarter of 2017, compared to the same period in 2016, was mostly due to net purchases of marketable securities.

We anticipate making capital expenditures in 2017 of approximately \$7.0 billion to \$7.5 billion.

### ***Cash Used in Financing Activities***

Cash used in financing activities during the first quarter of 2017 mostly consisted of \$771 million of taxes paid related to net share settlement of equity awards, and \$228 million for repurchases of our Class A common stock. The increase in cash used in financing activities during the first quarter of 2017, compared to the same period in 2016, was mostly due to taxes paid related to net share settlement of equity awards and repurchases of our Class A common stock that commenced in 2017, partially offset by the reduction in payments on capital lease and other financing obligations.

## Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of March 31, 2017 .

## Contractual Obligations

There were no material changes in our commitments under contractual obligations, as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 .

## Contingencies

We are involved in claims, lawsuits, government investigations, and other legal proceedings. We record a provision for a liability when we believe that it is both probable that a liability has been incurred, and that 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.

See Note 8 — Commitments and Contingencies and Note 10 — Income Taxes in the notes to the condensed consolidated financial statements included in Part I, Item 1, and "Legal Proceedings" contained in Part II, Item 1 of this Quarterly Report on Form 10-Q for additional information regarding contingencies.

## Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09), which amends the existing accounting standards for revenue recognition. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* , which delays the effective date of ASU 2014-09 by one year. The FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. In March 2016, the FASB issued Accounting Standards Update No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* (ASU 2016-08) which clarifies the implementation guidance on principal versus agent considerations. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. The new standard further requires new disclosures about contracts with customers, including the significant judgments the registrant has made when applying the guidance. The new revenue recognition standard will be effective for us in the first quarter of 2018, with the option to adopt it in the first quarter of 2017. We will be adopting the new standard effective January 1, 2018. The new standard also permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the modified retrospective method). We currently anticipate adopting the standard using the modified retrospective method. While we are still in the process of completing our analysis on the impact this guidance will have on our consolidated financial statements, related disclosures, and our internal controls over financial reporting, we do not expect the impact to be material.

In January 2017, the FASB issued Accounting Standards Update No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (ASU 2017-01), which revises the definition of a business and provides new guidance in evaluating when a set of transferred assets and activities is a business. This guidance will be effective for us in the first quarter of 2018 on a prospective basis, and early adoption is permitted. We do not expect the standard to have a material impact on our consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (ASU 2017-04), which eliminates step two from the goodwill impairment test. Under ASU 2017-04, an entity should recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value up to the amount of goodwill allocated to that reporting unit. This guidance will be effective for us in the first quarter of 2020 on a prospective basis, and early adoption is permitted. We do not expect the standard to have a material impact on our consolidated financial statements.

## Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with GAAP. The preparation of these condensed 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 the assumptions and estimates associated with revenue recognition for Payments and other fees, income taxes, share-based compensation, loss contingencies, and business combinations and valuation of goodwill and other acquired intangible assets have the greatest potential impact on our condensed consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates.

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 .

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to market risks, including changes to foreign currency exchange rates, interest rates, and inflation.

#### **Foreign Currency Exchange Risk**

We have foreign currency risks related to our revenue and operating expenses denominated in currencies other than the U.S. dollar, primarily the Euro. In general, we are a net receiver of currencies other than the U.S. dollar. Accordingly, changes in exchange rates, and in particular a strengthening of the U.S. dollar, have negatively affected our revenue and other operating results as expressed in U.S. dollars.

We have experienced and will continue to experience fluctuations in our net income as a result of transaction gains or losses related to revaluing certain current asset and current liability balances that are denominated in currencies other than the functional currency of the entities in which they are recorded. At this time, we have not entered into, but in the future we may enter into, derivatives or other financial instruments in an attempt to hedge our foreign currency exchange risk. It is difficult to predict the effect hedging activities would have on our results of operations. We recognized foreign currency gains of \$14 million and \$29 million in the three months ended March 31, 2017 and 2016, respectively.

#### **Interest Rate Sensitivity**

Our exposure to changes in interest rates relates primarily to interest earned and market value on our cash and cash equivalents and marketable securities.

Our cash and cash equivalents, and marketable securities consist of cash, certificates of deposit, time deposits, money market funds, U.S. government securities, U.S. government agency securities, and corporate debt securities. Our investment policy and strategy are focused on preservation of capital and supporting our liquidity requirements. Changes in U.S. interest rates affect the interest earned on our cash and cash equivalents and marketable securities, and the market value of those securities. A hypothetical 100 basis point increase in interest rates would have resulted in a decrease of \$464 million and \$403 million in the market value of our available-for-sale debt securities as of March 31, 2017 and December 31, 2016, respectively. Any realized gains or losses resulting from such interest rate changes would only occur if we sold the investments prior to maturity.

**Item 4. Controls and Procedures****Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our chief executive officer (CEO) and chief financial officer (CFO), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our CEO and CFO have concluded that as of March 31, 2017, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (SEC), and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

**Changes in Internal Control**

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the period covered by this Quarterly Report on Form 10-Q that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Limitations on Effectiveness of Controls and Procedures**

In designing and evaluating the disclosure controls and procedures and internal control over financial reporting, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures and internal control over financial reporting must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings

Beginning on May 22, 2012, multiple putative class actions, derivative actions, and individual actions were filed in state and federal courts in the United States and in other jurisdictions against us, our directors, and/or certain of our officers alleging violation of securities laws or breach of fiduciary duties in connection with our initial public offering (IPO) and seeking unspecified damages. We believe these lawsuits are without merit, and we intend to continue to vigorously defend them. The vast majority of the cases in the United States, along with multiple cases filed against The NASDAQ OMX Group, Inc. and The Nasdaq Stock Market LLC (collectively referred to herein as NASDAQ) alleging technical and other trading-related errors by NASDAQ in connection with our IPO, were ordered centralized for coordinated or consolidated pre-trial proceedings in the U.S. District Court for the Southern District of New York. In a series of rulings in 2013 and 2014, the court denied our motion to dismiss the consolidated securities class action and granted our motions to dismiss the derivative actions against our directors and certain of our officers. On July 24, 2015, the court of appeals affirmed the dismissal of the derivative actions. On December 11, 2015, the court granted plaintiffs' motion for class certification in the consolidated securities action. On April 13, 2017, we filed a motion for summary judgment. Trial is scheduled to begin on October 23, 2017.

On April 27, 2016, we announced a proposal to create a new class of non-voting capital stock (Class C capital stock) and our intention to declare and pay a dividend of two shares of Class C capital stock for each outstanding share of Class A and Class B common stock (the Reclassification). Following our announcement of the Reclassification, beginning on April 29, 2016, multiple purported class action lawsuits were filed on behalf of our stockholders in the Delaware Court of Chancery against us, certain of our board of directors, and Mark Zuckerberg. The lawsuits have been consolidated under the caption *In re Facebook, Inc. Class C Reclassification Litig.*, C.A. No. 12286-VCL, and the consolidated complaint generally alleges that the defendants breached their fiduciary duties in connection with the Reclassification. Among other remedies, these lawsuits seek to enjoin the Reclassification as well as unspecified money damages, costs, and attorneys' fees. Trial is scheduled to begin on September 26, 2017. We believe that the lawsuits are without merit and intend to vigorously defend against all claims asserted.

On December 29, 2014, an entity named Social Ranger LLC sued us for alleged violations of the United States antitrust laws in connection with virtual currency services. The complaint was filed in the U.S. District Court for the District of Delaware and seeks treble damages and an injunction. The court denied our motion to dismiss; our motion for summary judgment is pending. We believe this lawsuit is without merit, and we intend to vigorously defend against all claims asserted. Trial is scheduled to begin on June 12, 2017.

We are also involved in other claims, government and regulatory investigations, and proceedings arising from the ordinary course of our business, and we may in the future be subject to additional lawsuits and disputes.

## Item 1A. Risk Factors

*Certain factors may have a material adverse effect on our business, financial condition, and results of operations. You should consider carefully the risks and uncertainties described below, in addition to other information contained in this Quarterly Report on Form 10-Q, including our condensed consolidated financial statements and related notes. 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 trading 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 our products, 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. Our financial performance has been and will continue to be significantly determined by our success in adding, retaining, and engaging active users of our products, particularly for Facebook and Instagram. We anticipate that our active user growth rate will continue to decline over time as the size of our active user base increases, and as we achieve higher market penetration rates. 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. Our user engagement patterns have changed over time, and user engagement can be difficult to measure, particularly as we introduce new and different products and services. Any number of factors could potentially negatively affect user retention, growth, and engagement, including if:

- users increasingly engage with other competitive products or services;
- we fail to introduce new products or services that users find engaging or if we introduce new products or services that are not favorably received;
- users feel that their experience is diminished as a result of the decisions we make with respect to the frequency, prominence, format, size, and quality of ads that we display;
- users have difficulty installing, updating, or otherwise accessing our products on mobile devices as a result of actions by us or third parties that we rely on to distribute our products and deliver our services;
- user behavior on any of our products changes, including decreases in the quality and frequency of content shared on our products and services;
- 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 decreases 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 appropriate, interesting, useful, and relevant to them;
- we are unable to obtain or attract engaging third-party content;
- users adopt new technologies where our products may be displaced in favor of other products or services, or may not be featured or otherwise available;
- 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, such as security breaches or failure to prevent or limit spam or similar content;
- we adopt terms, policies, or procedures related to areas such as sharing or user data that are perceived negatively by our users or the general public;

- we elect to focus our user growth and engagement efforts more on longer-term initiatives, or if initiatives designed to attract and retain users and engagement are unsuccessful or discontinued, whether as a result of actions by us, third parties, or otherwise;
- we fail to provide adequate customer service to users, marketers, developers, or other partners;
- we, developers whose products are integrated with our products, or other partners and companies in our industry are the subject of adverse media reports or other negative publicity; or
- our current or future products, such as our development tools and application programming interfaces that enable developers to build, grow, and monetize mobile and web applications, reduce user activity on our products by making it easier for our users to interact and share on third-party mobile and web applications.

If we are unable to maintain or increase our user base and user engagement, our revenue and financial results may be adversely affected. Any decrease in user retention, growth, or engagement could render our products less attractive to users, marketers, and developers, which is likely to have a material and adverse impact on our revenue, business, financial condition, and results of operations. If our active user growth rate continues to slow, we will become increasingly dependent on our ability to maintain or increase levels of user engagement and monetization in order to drive revenue growth.

***We generate substantially all of our revenue from advertising. The loss of marketers, or reduction in spending by marketers, could seriously harm our business.***

Substantially all of our revenue is currently generated from third parties advertising on Facebook and Instagram. For the first quarter of 2017 and 2016, advertising accounted for 98% and 97% , respectively, of our revenue. As is common in the industry, our marketers do not have long-term advertising commitments with us. Many of our marketers spend only a relatively small portion of their overall advertising budget with us. In addition, marketers may view some of our products as experimental and unproven. Marketers will not continue to do business with us, or they will reduce the prices they are willing to pay to advertise with us or the budgets they are willing to commit to us, if we do not deliver ads 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 also be adversely affected by a number of other factors, including:

- decreases in user engagement, including time spent on our products;
- our inability to continue to increase user access to and engagement with our mobile products;
- product changes or inventory management decisions we may make that change the size, format, frequency, or relative prominence of ads displayed on our products or of other unpaid content shared by marketers on our products;
- our inability to maintain or increase marketer demand, the pricing of our ads, or both;
- our inability to maintain or increase the quantity or quality of ads shown to users;
- changes to third-party policies that limit our ability to deliver or target advertising on mobile devices;
- the availability, accuracy, and utility of analytics and measurement solutions offered by us or third parties that demonstrate the value of our ads to marketers, or our ability to further improve such tools;
- loss of advertising market share to our competitors, including if prices for purchasing ads increase or if competitors offer lower priced or more integrated products;
- adverse legal developments relating to advertising, including legislative and regulatory developments and developments in litigation;
- decisions by marketers to reduce their advertising as a result of adverse media reports or other negative publicity involving us, our advertising metrics, content on our products, developers with mobile and web applications that are integrated with our products, or other companies in our industry;
- reductions of advertising by marketers due to objectionable content published on our products by third parties;
- the effectiveness of our ad targeting or degree to which users opt out of certain types of ad targeting;
- the degree to which users cease or reduce the number of times they click on our ads;

- changes in the way advertising on mobile devices or on personal computers is measured or priced; and
- the impact of macroeconomic conditions, whether in the advertising industry in general, or among specific types of marketers or within particular geographies.

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

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

The substantial majority of our revenue is generated from advertising on mobile devices. There is no guarantee that popular mobile devices will continue to feature Facebook or our other products, or that mobile device users will continue to use our products rather than competing products. We are dependent on the interoperability of Facebook and our other products with popular mobile operating systems, networks, and standards that we do not control, such as the Android and iOS operating systems. Any changes, bugs, or technical issues in such systems, or changes in our relationships with mobile operating system partners, handset manufacturers, or mobile carriers, or in their terms of service or policies that degrade our products' functionality, reduce or eliminate our ability to distribute our products, give preferential treatment to competitive products, limit our ability to deliver, target, or measure the effectiveness of ads, or charge fees related to the distribution of our products or our delivery of ads could adversely affect the usage of Facebook or our other products and monetization 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, and that we have good relationships with handset manufacturers and mobile carriers. We may not be successful in maintaining or developing relationships with key participants in the mobile ecosystem 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 or our other products on their mobile devices, or if our users choose not to access or use Facebook or our other products on their mobile devices or use mobile products that do not offer access to Facebook or our other products, our user growth and user engagement could be harmed. From time to time, we may also take actions regarding the distribution of our products or the operation of our business based on what we believe to be in our long-term best interests. Such actions may adversely affect our users and our relationships with the operators of mobile operating systems, handset manufacturers, mobile carriers, or other business partners, and there is no assurance that these actions will result in the anticipated long-term benefits. In the event that our users are adversely affected by these actions or if our relationships with such third parties deteriorate, our user growth, engagement, and monetization could be adversely affected and our business could be harmed.

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

We compete with companies that sell advertising, as well as with companies that provide social and communication products and services that are designed to engage users and capture time spent on mobile devices and online. We face significant competition in every aspect of our business, including from companies that facilitate communication and the sharing of content and information, companies that enable marketers to display advertising, and companies that provide development platforms for applications developers. We compete with companies that offer products across broad platforms that replicate capabilities we provide. For example, Google has integrated social functionality into a number of its products, including search, video, and Android. We also compete with companies that develop applications, particularly mobile applications, that provide social or other communications functionality, such as messaging, photo- and video-sharing, and micro-blogging, as well as companies that provide regional social networks that have strong positions in particular countries. In addition, we face competition from traditional, online, and mobile businesses that provide media for marketers to reach their audiences and/or develop tools and systems for managing and optimizing advertising campaigns. We also compete with companies that develop and deliver virtual reality products and services.

Some of our current and potential competitors may have significantly greater resources or better competitive positions in certain product segments, geographic regions, or user demographics than we do. These factors may allow our competitors to respond more effectively than us to new or emerging technologies and changes in market conditions. We believe that some of our users, particularly our younger users, are aware of and actively engaging with other products and services similar to, or as a substitute for, Facebook products and services, and we believe that some of our users have reduced their use of and engagement with our products and services in favor of these other products and services. In the event that our users increasingly engage with other products and services, we may experience a decline in use and engagement in key user demographics or more broadly, in which case our business would likely be harmed.

Our competitors may develop products, features, or services that are similar to ours or that achieve greater acceptance, may undertake more far-reaching and successful product development efforts or marketing campaigns, or may adopt more aggressive pricing policies. In addition, developers whose mobile and web applications are integrated with Facebook or our other products may use information shared by our users through our products in order to develop products or features that compete with us. Some

competitors may gain a competitive advantage against us in areas where we operate, including: by integrating competing platforms, applications, or features into products they control such as mobile device operating systems, search engines, or web browsers; by making acquisitions; by limiting or denying our access to advertising measurement or delivery systems; by limiting our ability to deliver, target, or measure the effectiveness of ads; by imposing fees or other charges related to our delivery of ads; by making access to our products more difficult; or by making it more difficult to communicate with our users. As a result, our competitors may acquire and engage users or generate advertising or other revenue at the expense of our own efforts, which may negatively affect our business and financial results. In addition, from time to time, we may take actions in response to competitive threats, but we cannot assure you that these actions will be successful or that they will not 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 popularity, usefulness, ease of use, performance, and reliability of our products compared to our competitors' products;
- the size and composition of our user base;
- the engagement of our users with our products and competing products;
- the timing and market acceptance of products, including developments and enhancements to our or our competitors' products;
- our ability to distribute our products to new and existing users;
- our ability to monetize our products;
- the frequency, size, format, quality, and relative prominence of the ads displayed by us or our competitors;
- customer service and support efforts;
- marketing and selling efforts, including our ability to measure the effectiveness of our ads and to provide marketers with a compelling return on their investments;
- our ability to establish and maintain developers' interest in building mobile and web applications that integrate with Facebook and our other products;
- our ability to establish and maintain publisher interest in integrating their content with Facebook and our other products;
- 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, designers, and product managers;
- our ability to cost-effectively manage and grow our operations; and
- our reputation and brand strength relative to those of our competitors.

If we are not able to compete effectively, our user base and level of user engagement may decrease, we may become less attractive to developers and marketers, and our revenue and results of operations may be materially and adversely affected.



***Action by governments to restrict access to Facebook or our other products 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 or our other products in their country, restrict access to our products from their country entirely, or impose other restrictions that may affect the accessibility of our products 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, and North Korea. In addition, government authorities in other countries may seek to restrict access to our products if they consider us to be in violation of their laws or a threat to public safety or for other reasons, and certain of our products have been restricted by governments in other countries from time to time. In the event that content shown on Facebook or our other products is subject to censorship, access to our products is restricted, in whole or in part, in one or more countries, or other restrictions are imposed on our products, or our competitors are able to successfully penetrate new geographic markets or capture a greater share of existing geographic markets that we cannot access or where we face other restrictions, our ability to retain or increase our user base, user engagement, or the level of advertising by marketers 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 new products and changes to existing products could fail to attract or retain users or generate revenue and profits.***

Our ability to retain, increase, and engage our user base and to increase our revenue depends heavily on our ability to continue to evolve our existing products and to create successful new products, both independently and in conjunction with developers or other third parties. We may introduce significant changes to our existing products or acquire or introduce new and unproven products, including using technologies with which we have little or no prior development or operating experience. For example, in March 2016, we shipped our first virtual reality hardware product, the Oculus Rift. In addition, we have announced plans to develop augmented reality technology and products. We do not have significant experience with consumer hardware products or virtual or augmented reality technology, which may adversely affect our ability to successfully develop and market these products and technologies, and we will incur increased costs in connection with the development and marketing of such products and technologies. We have also invested significant resources in growing our WhatsApp and Messenger products. We have historically monetized messaging in only a very limited fashion, and we may not be successful in our efforts to generate meaningful revenue from messaging over the long term. If these or other new or enhanced products fail to engage users, marketers, or developers, or if we are unsuccessful in our monetization efforts, 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.

***We make product and investment decisions that may not prioritize short-term financial results.***

We frequently make product and investment decisions that may not prioritize short-term financial results 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. For example, from time to time we may change the size, frequency, or relative prominence of ads in order to improve ad quality and overall user experience. Similarly, from time to time we update our News Feed ranking algorithm to deliver the most relevant content to our users, which may adversely affect the distribution of content of marketers and developers and could reduce their incentive to invest in their development and marketing efforts on Facebook. We also may introduce changes to existing products, or introduce new stand-alone products, that direct users away from properties, formats, or use cases where we have a proven means of monetization. For example, users who desired to send messages from within the Facebook application have been redirected to our stand-alone Messenger application, although we do not monetize the stand-alone Messenger application in any significant manner. In addition, we plan to continue focusing on growing the user base for WhatsApp and potentially other stand-alone applications that may have limited or no near-term monetization, and it is possible that these efforts may reduce engagement with the core Facebook application. We are also investing in new experiences using video, including Facebook Live and longer-form content, and we may not successfully monetize such experiences. We also may take steps that result in limiting distribution of mobile products and services in the short term in order to attempt to ensure the availability of our products and services to users over the long term. These decisions may not produce the long-term benefits that we expect, in which case our user growth and engagement, our relationships with marketers and developers, and our business and results of operations could be harmed.

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

We believe that our brands have significantly contributed to the success of our business. We also believe that maintaining and enhancing our brands is critical to expanding our base of users, marketers, and developers. Many of our new users are referred by existing users. Maintaining and enhancing our brands 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 or policies that users do not like, which may negatively affect our brands. Additionally, the actions of our developers or advertisers may affect our brands if users do not have a positive experience using third-party mobile and web applications integrated with our products or interacting with parties that advertise through our products. We will also continue to experience media, legislative, or regulatory scrutiny of our decisions regarding user privacy, content, and other issues, which may adversely affect our reputation and brands. We also may fail to respond expeditiously to the sharing of objectionable content on our services or to provide adequate customer service, which could erode confidence in our brands. Our brands may also be negatively affected by the actions of users that are deemed to be hostile or inappropriate to other users, by the actions of users acting under false or inauthentic identities, by the use of our products or services to disseminate information that is deemed to be misleading (or intended to manipulate opinions), by perceived or actual efforts by governments to obtain access to user information for security-related purposes, or by the use of our products or services for illicit, objectionable, or illegal ends. Maintaining and enhancing our brands may require us to make substantial investments and these investments may not be successful. Certain of our past actions have eroded confidence in our brands, and if we fail to successfully promote and maintain our brands or if we incur excessive expenses in this effort, our business and financial results may be adversely affected.

***Security breaches and improper access to or disclosure of our data or user data, or other hacking and phishing attacks on our systems, could harm our reputation and adversely affect our business.***

Our industry is prone to cyber-attacks by third parties seeking unauthorized access to our data or users' data or to disrupt our ability to provide service. Any failure to prevent or mitigate security breaches and improper access to or disclosure of our data or user data could result in the loss or misuse of such data, which could harm our business and reputation and diminish our competitive position. In addition, computer malware, viruses, social engineering (predominantly spear phishing attacks), and general hacking have become more prevalent in our industry, have occurred on our systems in the past, and will occur on our systems in the future. As a result of our prominence, we believe that we are a particularly attractive target for such breaches and attacks. Such attacks may cause interruptions to the services we provide, degrade the user experience, cause users to lose confidence and trust in our products, or result in financial harm to us. Our efforts to protect our company data or the information we receive may also be unsuccessful due to software bugs or other technical malfunctions; employee, contractor, or vendor error or malfeasance; government surveillance; or other threats that evolve. 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. Although we have developed systems and processes that are designed to protect our data and user data, to prevent data loss, and to prevent or detect security breaches, we cannot assure you that such measures will provide absolute security.

In addition, some of our developers or other partners, such as those that help us measure the effectiveness of ads, may receive or store information provided by us or by our users through mobile or web applications integrated with Facebook. We provide limited information to such third parties based on the scope of services provided to us. However, if these third parties or developers fail to adopt or adhere to adequate data security practices, or in the event of a breach of their networks, our data or our users' data may be improperly accessed, used, or disclosed.

Affected users or government authorities could initiate legal or regulatory actions against us in connection with any security breaches or improper disclosure of data, 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, terms of service, product changes, product quality, litigation or regulatory activity, government surveillance, the actions of our advertisers, the actions of our developers whose products are integrated with our products, the use of our products or services for illicit, objectionable, or illegal ends, the actions of our users, the quality and integrity of content shared on our platform, or the actions of other companies that provide similar services to us, 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 and are 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 marketers in a particular period;
- fluctuations in spending by our marketers due to seasonality, such as historically strong spending in the fourth quarter of each year, episodic regional or global events, or other factors;
- the frequency, prominence, size, format, and quality of ads shown to users;
- the success of technologies designed to block the display of ads;
- the pricing of our ads and other products;
- the diversification and growth of revenue sources beyond advertising on Facebook and Instagram;
- our ability to generate revenue from Payments, or the sale of Oculus products and services or other products we may introduce in the future;
- the development and introduction of new products or services by us or our competitors;
- product changes that may reduce traffic to features or products that we successfully monetize;
- increases in marketing, sales, and other operating expenses that we will incur to grow and expand our operations and to remain competitive;
- costs and expenses related to the development and delivery of Oculus products and services;
- our ability to maintain gross margins and operating margins;
- costs related to acquisitions, including costs associated with amortization and additional investments to develop the acquired technologies;
- charges associated with impairment of any assets on our balance sheet;
- our ability to obtain equipment, components, and labor for our data centers and other technical infrastructure in a timely and cost-effective manner;
- system failures or outages, which could prevent us from serving ads for any period of time;
- breaches of security or privacy, and the costs associated with any such breaches and remediation;
- changes in the manner in which we distribute our products or inaccessibility of our products due to third-party actions;
- fees paid to third parties for content or the distribution of our products;
- share-based compensation expense, including acquisition-related expense;
- adverse litigation judgments, settlements, or other litigation-related costs;
- changes in the legislative or regulatory environment, including with respect to privacy and data protection, or enforcement by government regulators, including fines, orders, or consent decrees;
- the overall tax rate for our business, which may be affected by the mix of income we earn in the U.S. and in jurisdictions with comparatively lower tax rates, the tax effects of share-based compensation, the effects of integrating intellectual property from acquisitions, and the impact of new legislation;
- tax obligations that may arise from changes in laws or resolutions of tax examinations, including the examination

we are currently under by the Internal Revenue Service (IRS), that materially differ from the amounts we have anticipated;

- 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 global business or macroeconomic conditions.

***We expect our rates of growth to decline in the future.***

We expect that our user growth and revenue growth rates will decline over time as the size of our active user base increases and as we achieve greater market penetration. We expect our revenue growth rate will generally decline over time as our revenue increases to higher levels. As our growth rates decline, investors' perceptions of our business may be adversely affected and the trading price of our Class A common stock could decline.

***Our costs are continuing to grow, which could harm our business and profitability.***

Operating our business is costly, and we expect our expenses to continue to increase in the future as we broaden our user base, as users increase the amount and types of content they consume and the data they share with us, for example with respect to video, as we develop and implement new products, as we continue to expand our technical infrastructure, as we continue to invest in new and unproven technologies, and as we continue to hire additional employees to support our expanding operations. We expect to continue to invest in our global connectivity efforts and other initiatives, which may not have clear paths to monetization. We may also be subject to increased costs in order to obtain and attract third-party content or to facilitate the distribution of our products. In addition, we will incur increased costs in connection with the development and marketing of our Oculus products and services. Any such investments may not be successful, and any such increases in our costs may adversely affect our business and profitability.

***Our business is subject to complex and evolving U.S. and foreign laws and regulations regarding privacy, data protection, content, competition, consumer 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, monetary penalties, 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 privacy, data protection and personal information, rights of publicity, content, intellectual property, advertising, marketing, distribution, data security, data retention and deletion, personal information, electronic contracts and other communications, competition, protection of minors, consumer protection, telecommunications, product liability, taxation, economic or other trade prohibitions or sanctions, securities law compliance, and online payment services. The introduction of new products, expansion of our activities in certain jurisdictions, or other actions that we may take may subject us to additional laws, regulations, or other government scrutiny. In addition, foreign data protection, privacy, content, competition, and other laws and regulations can impose different obligations or be more restrictive than those in the United States.

These U.S. federal and state and foreign laws and regulations, which in some cases can be enforced by private parties in addition to government entities, are constantly evolving and can be subject to significant change. As a result, the application, interpretation, and enforcement of these laws and regulations are often uncertain, particularly in the new and rapidly evolving industry in which we operate, and may be interpreted and applied inconsistently from country to country and inconsistently with our current policies and practices. For example, regulatory or legislative actions affecting the manner in which we display content to our users or obtain consent to various practices could adversely affect user growth and engagement. Such actions could affect the manner in which we provide our services or adversely affect our financial results.

We are also subject to laws and regulations that dictate whether, how, and under what circumstances we can transfer, process and/or receive transnational data that is critical to our operations, including data relating to users, customers, or partners outside the United States, and those laws and regulations are uncertain and subject to change. For example, in October 2015, the European Court of Justice invalidated the European Commission's 2000 Safe Harbour Decision as a legitimate basis on which Facebook could rely for the transfer of data from the European Union to the United States. In 2016, the European Union and United States agreed to an alternative transfer framework for data transferred from the European Union to the United States, called the Privacy Shield, but this new framework is subject to an annual review that could result in changes to our obligations and also may be challenged by national regulators or private parties. In addition, the other bases on which Facebook relies to legitimize the transfer of data, such as standard Model Contractual Clauses (MCCs), have been subjected to regulatory or judicial scrutiny. For example, the Irish Data Protection Commissioner is investigating and has challenged the legal grounds for transfers of user data to Facebook, Inc. If one or more of the legal bases for transferring data from Europe to the United States is invalidated, or if Facebook is unable to transfer personal data between and among countries and regions in which it operates, it could affect the manner in which we provide our services or adversely affect our financial results.

Proposed or new legislation and regulations could also significantly affect our business. There currently are a number of proposals pending before federal, state, and foreign legislative and regulatory bodies. In addition, the European Commission has approved a data protection regulation, known as the General Data Protection Regulation (GDPR), which has been finalized and is due to come into force in or around May 2018. The GDPR will include operational requirements for companies that receive or process personal data of residents of the European Union that are different than those currently in place in the European Union, and that will include significant penalties for non-compliance. Similarly, there are a number of legislative proposals in the United States, at both the federal and state level, that could impose new obligations in areas affecting our business, such as liability for copyright infringement by third parties. In addition, some countries are considering or have passed legislation implementing data protection requirements or requiring local storage and processing of data or similar requirements that could increase the cost and complexity of delivering our services.

These laws and regulations, as well as any associated inquiries or investigations or any other government actions, may be costly to comply with and may 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 remedies that may harm our business, including fines or demands or orders 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 and other inquiries 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 formal and informal inquiries from government authorities and regulators regarding our compliance with laws and regulations, many of which are evolving and subject to interpretation. We are and expect to continue to be the subject of investigations, inquiries, actions, and audits in the United States, Europe, and around the world, particularly in the areas of privacy, data protection, consumer protection, and competition, as we continue to grow and expand our operations. For example, several data protection authorities in the European Union have initiated actions, investigations, or administrative orders seeking to assert jurisdiction over Facebook, Inc. and our subsidiaries and to restrict the ways in which we collect and use information, and other data protection authorities may do the same. Further, the European Commission's Directorate General for Competition has issued a Statement of Objections in connection with our 2014 acquisition of WhatsApp and is investigating whether Facebook provided incorrect or misleading information during the merger review process (though the investigation will not have an impact on the merger approval). Orders issued by, or inquiries or enforcement actions initiated by, government or regulatory authorities could cause us to incur substantial costs, expose us to unanticipated civil and criminal liability or penalties (including substantial monetary fines), 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 brands 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, assignment, 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 significant number of issued patents in multiple jurisdictions and have acquired patents and patent applications from third parties. In addition, in the future we may acquire additional patents or patent portfolios, which could require significant cash expenditures. 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 generally 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 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 or disclose code and/or 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 brands and other intangible assets may be diminished and competitors may be able to more effectively mimic our products, services, 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 or acquire new products, including in areas where we historically have not competed, 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 from patent holders and other parties alleging that certain of our products and services, or user content, infringe their intellectual property rights. We presently are involved in a number of intellectual property lawsuits, and as we face increasing competition and gain an increasingly high profile, 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, and results of operations could be adversely affected as a result of an unfavorable resolution of the disputes and litigation referred to above.

***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, many of which claim statutory damages and/or seek significant changes to our business operations, and we anticipate that we will continue to be a target for numerous lawsuits in the future. Because of the scale of our user base, 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. In addition, we may be subject to additional class action lawsuits based on product performance or other claims related to the use of consumer hardware and software, as well as virtual reality technology and products, which are new and unproven. Any negative outcome from any such lawsuits could result in payments of substantial monetary damages or fines, or undesirable 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 such lawsuits and claims cannot be predicted with certainty, we do not believe that the final outcome of those matters relating to our products that we currently face will have a material adverse effect on our business, financial condition, or results of operations. In addition, we are currently the subject of stockholder class action suits in connection with our IPO and with our intention to create a new class of capital stock (Class C capital stock) and to declare and pay a dividend of two shares of Class C capital stock for each outstanding share of Class A and Class B common stock (the Reclassification). We believe these lawsuits are without merit and are vigorously defending these lawsuits.

There can be no assurances that a favorable final outcome will be obtained in all our cases, and defending any lawsuit is costly and can impose a significant burden on management and employees. Any litigation to which we are a party may result in an onerous or unfavorable judgment that may not be reversed upon appeal or in payments of substantial monetary damages or fines, or we may decide to settle lawsuits on similarly unfavorable terms, which could adversely affect our business, financial conditions, or results of operations.

***We may incur liability as a result of information retrieved from or transmitted over the Internet or published using our products or as a result of 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 our products. In particular, the nature of our business exposes us to claims related to defamation, dissemination of misinformation or news hoaxes, discrimination, intellectual property rights, rights of publicity and privacy, personal injury torts, or local laws regulating hate speech or other types of content. 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. We could also face orders restricting or blocking our services in particular geographies as a result of content hosted on our services. If any of these events occur, our business and financial results could be adversely affected.

***Our CEO has control over key decision making as a result of his control of a majority of the voting power of our outstanding capital stock.***

Mark Zuckerberg, our founder, Chairman, and CEO, is able to exercise voting rights with respect to a majority of the voting power of our outstanding capital stock and therefore 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, which has limited voting power relative to the Class B common stock, or if issued, our Class C capital stock, which will generally have no voting power, and might harm the trading price of our Class A common stock and, if issued, our Class C capital 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 has designated. 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 governed by a voting agreement, in his own interests, which may not always be in the interests of our stockholders generally.

Moreover, since our Class C capital stock, if issued, will generally have no voting power, the issuance of the Class C capital stock, including in connection with future financings, acquisitions, or the issuance of future equity awards, could have the effect of prolonging the duration of Mr. Zuckerberg's ability to exercise voting rights with respect to a majority of the voting power of our outstanding capital stock and therefore his 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. We believe that Mr. Zuckerberg's continued control of a majority of the voting power of our outstanding capital stock is beneficial to us and is in the best interests of our stockholders. In the event that Mr. Zuckerberg no longer controls a majority of the voting power, whether as a result of the disposition of some or all his shares of Class A or Class B common stock or otherwise, our business or the trading price of our Class A common stock and, if issued, our Class C capital stock may be adversely affected.

***We plan to continue to make acquisitions, which could harm our financial condition or results of operations and may adversely affect the price of our common stock.***

As part of our business strategy, we have made and intend to continue to make acquisitions to add specialized employees and complementary companies, products, or technologies. We may not be able to find suitable acquisition candidates, and we may not be able to complete acquisitions on favorable terms, if at all. In some cases, the costs of such acquisitions may be substantial. For example, in 2014 we paid approximately \$4.6 billion in cash and issued 178 million shares of our Class A common stock in connection with our acquisition of WhatsApp, and we paid approximately \$400 million in cash and issued 23 million shares of our Class B common stock in connection with our acquisition of Oculus. We also issued a substantial number of RSUs to help retain the employees of these companies. There is no assurance that we will receive a favorable return on investment for these or other acquisitions.

We may pay substantial amounts of cash or incur debt to pay for acquisitions, which could adversely affect our liquidity. The incurrence of indebtedness would also result in increased fixed obligations, increased interest expense, and could also include covenants or other restrictions that would impede our ability to manage our operations. We may also issue equity securities to pay for acquisitions and we regularly grant RSUs to retain the employees of acquired companies, which could increase our expenses, adversely affect our financial results, and result in dilution to our stockholders. In addition, any acquisitions we announce could be viewed negatively by users, marketers, developers, or investors, which may adversely affect our business or the price of our Class A common stock.

In the future, we may use shares of Class C capital stock as consideration in connection with acquisitions. However, we may not be able to issue shares of Class C capital stock because companies that we are interested in acquiring may not agree to accept shares that carry no voting rights, or for other reasons. If the Class C capital stock trades at a discount to the Class A common stock, companies that we seek to acquire may also demand more shares of Class C capital stock in exchange for accepting such stock as consideration. In such instances, we may need to pay cash, issue shares of our Class A or Class B common stock as consideration, or issue a relatively greater number of shares of Class C capital stock to consummate the acquisitions.

We may also discover liabilities or deficiencies associated with the companies or assets we acquire that were not identified in advance, which may result in significant unanticipated costs. The effectiveness of our due diligence review and our ability to evaluate the results of such due diligence are dependent upon the accuracy and completeness of statements and disclosures made or actions taken by the companies we acquire or their representatives, as well as the limited amount of time in which acquisitions are executed. In addition, we may fail to accurately forecast the financial impact of an acquisition transaction, including tax and accounting charges. Acquisitions may also result in our recording of significant additional expenses to our results of operations and recording of substantial finite-lived intangible assets on our balance sheet upon closing. Any of these factors may adversely affect our financial condition or results of operations.

***We may not be able to successfully integrate our acquisitions, and we may incur significant costs to integrate and support the companies we acquire.***

The integration of acquisitions requires significant time and resources, and we may not manage these processes successfully. Our ability to successfully integrate complex acquisitions is unproven, particularly with respect to companies that have significant operations or that develop products where we do not have prior experience. For example, Oculus and WhatsApp are larger and more complex than companies we have historically acquired. In particular, Oculus builds technology and products that are new to Facebook and with which we did not have significant experience or structure in place to support prior to the acquisition. We continue to make substantial investments of resources to support these acquisitions, which will result in significant ongoing operating expenses and may divert resources and management attention from other areas of our business. We cannot assure you that these investments will be successful. If we fail to successfully integrate the companies we acquire, we may not realize the benefits expected from the transaction and our business may be harmed.

***If our goodwill or finite-lived intangible assets become impaired, we may be required to record a significant charge to earnings.***

We review our finite-lived intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable, such as a decline in stock price and market capitalization. We test goodwill for impairment at least annually. If such goodwill or finite-lived intangible assets are deemed to be impaired, an impairment loss equal to the amount by which the carrying amount exceeds the fair value of the assets would be recognized. We may be required to record a significant charge in our financial statements during the period in which any impairment of our goodwill or finite-lived intangible assets is determined, which would negatively affect our results of operations.



***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 our products 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 our products are unavailable when users attempt to access them, or if they do not load as quickly as expected, users may not use our products as often in the future, or at all, and our ability to serve ads may be disrupted. As our user base and engagement continue to grow, and the amount and types of information shared on Facebook and our other products continue to grow and evolve, such as increased engagement with video, 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 continue to effectively scale and grow our technical infrastructure to accommodate these increased demands. In addition, our business may be subject to interruptions, delays, or failures resulting from earthquakes, adverse weather conditions, other natural disasters, power loss, terrorism, geopolitical conflict, cyberattacks, or other catastrophic events. If such an event were to occur, users may be subject to service disruptions or outages and we may not be able to recover our technical infrastructure and user data in a timely manner to restart or provide our services, which may adversely affect our financial results.

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 could experience unforeseen difficulties in building and operating key portions of our technical infrastructure.***

We have designed and built our own data centers and key portions of our technical infrastructure through which we serve our products, and we plan to continue to significantly expand the size of our infrastructure primarily through data centers and other projects. The infrastructure expansion we are undertaking is complex, and unanticipated delays in the completion of these projects, including due to any shortage of labor necessary in building portions of such 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 products and internal systems rely on software that is highly technical, and if it contains undetected errors or vulnerabilities, our business could be adversely affected.***

Our products and internal systems rely on software, including software developed or maintained internally and/or by third parties, that is highly technical and complex. In addition, our products and internal systems depend on the ability of such software to store, retrieve, process, and manage immense amounts of data. The software on which we rely has contained, and will in the future contain, undetected errors, bugs, or vulnerabilities. Some errors may only be discovered after the code has been released for external or internal use. Errors, vulnerabilities, or other design defects within the software on which we rely may result in a negative experience for users and marketers who use our products, delay product introductions or enhancements, result in targeting, measurement, or billing errors, compromise our ability to protect the data of our users and/or our intellectual property or lead to reductions in our ability to provide some or all of our services. In addition, any errors, bugs, vulnerabilities, or defects discovered in the software on which we rely, and any associated degradations or interruptions of service, 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.

***Technologies have been developed that can block the display of our ads, which could adversely affect our financial results.***

Technologies have been developed, and will likely continue to be developed, that can block the display of our ads, particularly advertising displayed on personal computers. We generate substantially all of our revenue from advertising, including revenue resulting from the display of ads on personal computers. Revenue generated from the display of ads on personal computers has been impacted by these technologies from time to time. As a result, these technologies have had an adverse effect on our financial results and, if such technologies continue to proliferate, in particular with respect to mobile platforms, our future financial results may be harmed.

***Real or perceived inaccuracies in our user and other metrics may harm our reputation and negatively affect our business.***

The numbers for our key metrics, which include our DAUs, MAUs, and average revenue per user (ARPU), are calculated

using internal company data based on the activity of user accounts. While these numbers are based on what we believe to be reasonable estimates of our user base for the applicable period of measurement, there are inherent challenges in measuring usage of our products across large online and mobile populations around the world. In addition, we are continually seeking to improve our estimates of our user base, and such estimates may change due to improvements or changes in our methodology.

In 2016, we estimate that "duplicate" accounts (an account that a user maintains in addition to his or her principal account) may have represented approximately 6% of our worldwide MAUs. We also seek to identify "false" accounts, which we divide into two categories: (1) user-misclassified accounts, where users have created personal profiles for a business, organization, or non-human entity such as a pet (such entities are permitted on Facebook using a Page rather than a personal profile under our terms of service); and (2) undesirable accounts, which represent user profiles that we determine are intended to be used for purposes that violate our terms of service, such as spamming. In 2016, for example, we estimate that such user-misclassified and undesirable accounts may have represented approximately 1% of our worldwide MAUs. We believe the percentage of accounts that are duplicate or false is meaningfully lower in developed markets such as the United States or United Kingdom and higher in developing markets such as India and Turkey. However, these estimates are based on an internal review of a limited sample of accounts and we apply significant judgment in making this determination, such as identifying names that appear to be fake or other behavior that appears inauthentic to the reviewers. Our estimates may change as our methodologies evolve, including through the application of new technologies, which may allow us to identify previously undetected false or duplicate accounts and improve our ability to evaluate a broader population of our users. As such, our estimation of duplicate or false accounts may not accurately represent the actual number of such accounts.

Our data limitations may affect our understanding of certain details of our business. For example, while user-provided data indicates a decline in usage among younger users, this age data is unreliable because a disproportionate number of our younger users register with an inaccurate age. Accordingly, our understanding of usage by age group may not be complete. In addition, our data regarding the geographic location of our users is estimated based on a number of factors, such as the user's IP address and self-disclosed location. These factors may not always accurately reflect the user's actual location. For example, a user may appear to be accessing Facebook from the location of the proxy server that the user connects to rather than from the user's actual location. The methodologies used to measure user metrics may also be susceptible to algorithm or other technical errors. Our estimates for revenue by user location and revenue by user device are also affected by these factors. For example, we discovered an error in the algorithm we used to attribute our revenue by user geography in late 2015. While this issue did not affect our overall worldwide revenue, it did affect our attribution of revenue to different geographic regions. The fourth quarter of 2015 revenue by user geography and ARPU amounts were adjusted to reflect this reclassification.

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

In addition, from time to time we provide, or rely on, certain other metrics, including those relating to the reach and effectiveness of our ads. All of our metrics are subject to software bugs, inconsistencies in our systems, and human error. If marketers, developers, or investors do not perceive our metrics to be accurate, or if we discover material inaccuracies in our metrics, we may be subject to liability, our reputation may be harmed, and marketers 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 employees increasing to 18,770 as of March 31, 2017 from 13,598 as of March 31, 2016, and we expect such 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 relationships with users, marketers, developers, and other third parties. As our operations and the number of our third-party relationships continue to grow, our information technology systems or our internal controls and procedures may not be adequate to support such growth. 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 continue to hire a significant number of technical personnel in the foreseeable future, and we expect to continue to face significant competition from other companies in hiring such personnel, particularly in the San Francisco Bay Area, where our headquarters are located and where the cost of living is high. As we continue to mature, the incentives to attract, retain, and motivate employees provided by our equity awards or by future arrangements may not be as effective as in the past, and if we issue significant equity to attract additional employees, the ownership of our existing stockholders may be further diluted. Our ability to attract, retain, and motivate employees may also be adversely affected by stock price volatility. Additionally, we have a number of current employees whose equity ownership in our company has provided them a substantial amount of personal wealth, which could affect their decisions about whether or not to continue to work for us. As a result of these factors, it may be difficult for us to continue to retain and motivate our employees. 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.

***We may not be able to continue to successfully grow usage of and engagement with mobile and web applications that integrate with Facebook and our other products.***

We have made and are continuing to make investments to enable developers to build, grow, and monetize mobile and web applications that integrate with Facebook and our other products. Such existing and prospective developers may not be successful in building, growing, or monetizing mobile and/or web applications 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 products that integrate with Facebook and our other products. We are continuously seeking to balance the distribution objectives of our 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 such developers. For example, from time to time, we have taken actions to reduce the volume of communications from these developers to users on Facebook and our other products with the objective of enhancing the user experience, and such actions have reduced distribution from, user engagement with, and our monetization opportunities from, mobile and web applications integrated with our products. In some instances, these actions, as well as other actions to enforce our policies applicable to developers, have adversely affected our relationships with such developers. If we are not successful in our efforts to continue to grow the number of developers that choose to build products that integrate with Facebook and our other products or if we are unable to continue to build and maintain good relations with such developers, our user growth and user engagement and our financial results may be adversely affected.

***We currently generate substantially all of our Payments revenue from developers that use Facebook on personal computers, and we expect that our Payments revenue will continue to decline in the future as usage of Facebook on personal computers continues to decline.***

We currently generate substantially all of our Payments revenue from developers that use Facebook on personal computers. Specifically, applications built by developers of social games are currently responsible for substantially all of our revenue derived from Payments, and the majority of the revenue from these applications has historically been generated by a limited number of the most popular games. We have experienced and expect to see the continued decline in usage of Facebook on personal computers for the foreseeable future, which we expect will result in a continuing decline in Payments revenue. In addition, only a relatively small percentage of our users have transacted with Facebook Payments. If the Facebook-integrated applications fail to grow or maintain their users and engagement, whether as a result of the continued decline in the usage of Facebook on personal computers or otherwise, if developers do not continue to introduce new applications that attract users and create engagement on Facebook, or if Facebook-integrated applications outside of social games do not gain popularity and generate significant revenue for us, our financial performance could be adversely affected.

***Payment transactions 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 purchase virtual and digital goods from developers that offer applications using our Payments infrastructure on the Facebook website. In addition, certain of our users can use our Payments infrastructure, including on Messenger, for other activities, such as sending money to other users and making donations to certain charitable organizations. We are subject to a variety of laws and regulations in the United States, Europe, and elsewhere, including those governing anti-money laundering and counter-terrorist financing, money transmission, gift cards and other prepaid access instruments, electronic funds transfer, charitable fundraising, and import and export restrictions. Depending on how our Payments product evolves, we may also be subject to other laws and regulations including those governing gambling, banking, and lending. 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 received certain money transmitter licenses in the United States and an Electronic Money (E-Money) license that allows us to conduct certain regulated payment activities in the participating member countries of the European Economic Area, which will generally require us to demonstrate compliance with many domestic and foreign 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 transactions, 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 have significant international operations and plan to continue expanding our operations abroad where we have more limited operating experience, and this may subject us to increased business and economic risks that could affect our financial results.***

We have significant international operations and plan to continue the international expansion of our business operations and the translation of our products. We currently make Facebook available in more than 100 different languages, and we have offices or data centers in more than 30 different countries. We may enter new international markets where we have limited or no experience in marketing, selling, and deploying our products. Our products are generally available globally through the web and on mobile, but some or all of our products or functionality may not be available in certain markets due to legal and regulatory complexities. For example, Facebook is not generally available in China. We also outsource certain operational functions to third-party vendors globally. If we fail to deploy, manage, or oversee our international operations 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 legal, regulatory, and other government scrutiny applicable to U.S. companies with sales and operations in foreign jurisdictions, including with respect to privacy, tax, law enforcement, content, trade compliance, intellectual

property, and terrestrial infrastructure matters;

- 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 and compliance with currency controls;
- foreign exchange controls and tax regulations that might prevent us from repatriating cash earned in countries outside the United States or otherwise limit our ability to move cash freely, and impede our ability to invest such cash efficiently;
- 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, managing, and overseeing 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 face design, manufacturing, and supply chain risks that, if not properly managed, could adversely impact our financial results.***

We face a number of risks related to design, manufacturing, and supply chain management with respect to our Oculus products. For example, the Oculus products we sell may have quality issues resulting from the design or manufacture of the products, or from the software used in the products. Sometimes, these issues may be caused by components we purchase from other manufacturers or suppliers. If the quality of our Oculus products does not meet our customers' expectations or such products are found to be defective, then our financial results could be adversely affected.

We rely on third parties to manufacture our Oculus products. We may experience supply shortages or other supply chain disruptions in the future that could result in shipping delays and negatively impact our operations. We could be negatively affected if we are not able to engage third parties with the necessary capabilities or capacity on reasonable terms, or if those we engage with fail to meet their obligations (whether due to financial difficulties or other reasons), or make adverse changes in the pricing or other material terms of such arrangements with them.

We also require the suppliers and business partners of our Oculus products to comply with laws and certain company policies regarding sourcing practices, but we do not control them or their practices. If any of them violates laws or implements practices regarded as unethical or corrupt, we could experience supply chain disruptions, canceled orders, or damage to our reputation.

In addition, the Securities and Exchange Commission's (SEC) conflict minerals rule requires disclosure by public companies of information relating to the origin, source and chain of custody of specified minerals, known as conflict minerals, that are necessary to the functionality or production of products manufactured or contracted to be manufactured. Although the SEC has recently provided guidance with respect to a portion of the conflict minerals filing requirements that will somewhat relax the reporting required, we may incur significant costs associated with complying with the other portions of the rule, such as costs related to the determination of the origin, source and chain of custody of the minerals used in Oculus products, the adoption of conflict minerals-related governance policies, processes and controls, and possible changes to products or sources of supply as a result of such activities.

***We may face inventory risk with respect to our Oculus products.***

We may be exposed to inventory risks with respect to our Oculus products as a result of rapid changes in product cycles and pricing, unsafe or defective merchandise, changes in consumer demand and consumer spending patterns, changes in consumer tastes with respect to Oculus products, and other factors. We endeavor to accurately predict these trends and avoid overstocking

or understocking products Oculus may sell. Demand for products, however, can change significantly between the time inventory or components are ordered and the date of sale. In addition, when we begin selling or manufacturing a new Oculus product, it may be difficult to establish vendor relationships, determine appropriate product or component selection, and accurately forecast demand. The acquisition of certain types of inventory or components may require significant lead-time and prepayment and they may not be returnable. Any one of these factors may adversely affect our operating results.

***We may have exposure to greater than anticipated tax liabilities.***

Our income tax obligations are based in part on our corporate operating structure and intercompany arrangements, including the manner in which we operate our business, develop, value, manage, protect, and use our intellectual property and the valuations of our intercompany transactions. The tax laws applicable to our business, including the laws of the United States and other jurisdictions, are subject to interpretation and certain jurisdictions are aggressively interpreting their laws in new ways in an effort to raise additional tax revenue from companies such as Facebook. 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. For example, the IRS recently issued us a formal assessment relating to transfer pricing with our foreign subsidiaries in conjunction with the examination of the 2010 tax year, and although we disagree with the IRS's position and are contesting this issue, the ultimate resolution is uncertain and, if resolved in a manner unfavorable to us, may adversely affect our financial results. We are subject to regular review and audit by U.S. federal and state, and foreign tax authorities. Tax authorities may disagree with certain positions we have taken and 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. Our provision for income taxes is also determined by the manner in which we operate our business, and any changes to such operations or laws applicable to such operations may affect our effective tax rate. Although we believe that our provision for income taxes is 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. 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. For example, we have previously incurred losses in certain international subsidiaries that resulted in an effective tax rate that is significantly higher than the statutory tax rate in the United States and this could continue to happen in the future.

***Changes in tax laws or tax rulings could materially affect our financial position and results of operations.***

The tax regimes we are subject to or operate under are unsettled and may be subject to significant change. Changes in tax laws or tax rulings, or changes in interpretations of existing laws, could materially affect our financial position and results of operations. Many countries in Europe, as well as a number of other countries and organizations, have recently proposed or recommended changes to existing tax laws or have enacted new laws that could significantly increase our tax obligations in many countries where we do business or require us to change the manner in which we operate our business. The Organization for Economic Cooperation and Development has been working on a Base Erosion and Profit Sharing Project, and issued in 2015, and is expected to continue to issue, guidelines and proposals that may change various aspects of the existing framework under which our tax obligations are determined in many of the countries in which we do business. The European Commission has conducted investigations in multiple countries focusing on whether local country tax rulings or tax legislation provides preferential tax treatment that violates European Union state aid rules and concluded that certain countries, including Ireland, have provided illegal state aid in certain cases. These investigations may result in changes to the tax treatment of our foreign operations. In addition, the current U.S. administration and key members of Congress have made public statements indicating that tax reform is a priority. 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. Due to the large and expanding scale of our international business activities, many of these types of changes to the taxation of our activities could increase our worldwide effective tax rate and harm our financial position and results of operations.

***We cannot guarantee that our recently announced share repurchase program will be fully consummated or that it will enhance long-term stockholder value. Share repurchases could also increase the volatility of the trading price of our stock and could diminish our cash reserves.***

In November 2016, our board of directors authorized the repurchase of up to \$6 billion of our Class A common stock commencing in 2017. The repurchase program does not have an expiration date. Although our board of directors has authorized this share repurchase program, the program does not obligate us to repurchase any specific dollar amount or to acquire any specific number of shares. The program could affect the trading price of our stock and increase volatility, and any announcement of a

termination of this program may result in a decrease in the trading price of our stock. In addition, this program could diminish our cash reserves.

### **Risks Related to Ownership of Our Class A Common Stock**

*The trading price of our Class A common stock has been and will likely continue to be volatile, and if the creation and dividend of Class C capital stock is effected, the trading price of that class will likely be volatile and may impact the trading price for the Class A common stock.*

The trading price of our Class A common stock has been, and is likely to continue to be, volatile. Since shares of our Class A common stock were sold in our IPO in May 2012 at a price of \$38.00 per share, our stock price has ranged from \$17.55 to \$142.65 through March 31, 2017. In addition to the factors discussed in this Quarterly Report on Form 10-Q, the trading 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 stock being sold into the market by us, our existing stockholders, or in connection with acquisitions or the anticipation of such sales;
- investor sentiment with respect to our competitors, our business partners, and our industry in general;
- 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, the level of user engagement, or the effectiveness of our ad products;
- changes in operating performance and stock market valuations of technology companies in our industry, including our developers and competitors;
- price and volume fluctuations in the overall stock market, including as a result of trends in the economy as a whole;
- the inclusion, exclusion, or deletion of our stock from any trading indices, such as the S&P 500 Index;
- media coverage of our business and financial performance;
- lawsuits threatened or filed against us;
- developments in anticipated or new legislation and pending lawsuits or regulatory actions, including interim or final rulings by tax, judicial, or regulatory bodies;
- trading activity in our share repurchase program; and
- other events or factors, including those resulting from war or incidents of terrorism, or responses to these events.

In addition, in 2016 we announced a proposal to create a new class of non-voting capital stock, known as Class C capital stock, and to distribute two shares of Class C capital stock as a dividend to the holders of our Class A and Class B common stock. While this proposal has been approved by our stockholders, the record and payment dates for this dividend will be determined by our board of directors in its discretion and there can be no assurance as to the timing of such dates. Once the dividend is distributed, we expect that the market price for the shares of our Class A common stock will generally reflect the effect of a three-for-one stock split. The pending Reclassification is currently subject to class action lawsuits that were filed on behalf of our stockholders.

If issued, we plan to list the Class C capital stock on the NASDAQ Stock Market LLC. The trading price for the Class C capital stock may be volatile and affected by the factors noted with respect to our Class A common stock above. The trading price of the Class C capital stock may also be affected by the difference in voting rights compared to our Class A and Class B common shares, the liquidity of the market for Class C capital stock, and investor demand for Class C capital stock, including that of institutional investors that may be unwilling, unable, or choose not to hold non-voting shares of our capital stock.

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 those companies. We are currently subject to securities litigation in connection with our IPO. We may experience more such litigation following future periods of volatility. Any securities litigation could subject us to substantial costs, divert resources and the attention of management from our business, and adversely affect our business.

***We do not intend to pay cash 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 cash dividends in the foreseeable future. As a result, you may only receive a return on your investment in our Class A common stock and, if issued, our Class C capital stock if the trading price of your shares increases.

***The dual class structure of our common stock and a voting agreement between certain stockholders have the effect of concentrating voting control with our CEO and certain other holders of our Class B common stock; 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 has one vote per share, and we intend to create Class C capital stock that generally has no voting rights. Stockholders who hold shares of Class B common stock, including certain of our executive officers, employees, and directors and their affiliates, together hold a substantial majority of the voting power of our outstanding capital stock. 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 control a majority of the combined voting power of our common stock and therefore are 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.

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 outstanding capital stock.

***Our status as a "controlled company" 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 connection with the pending Reclassification, contingent upon our payment of a dividend of Class C capital stock as described in last year's proxy statement, our corporate governance guidelines will be amended to provide that our compensation & governance committee will be comprised solely of independent directors. We do not have a separate and independent nominating function and will continue to have the full board of directors be directly responsible for nominating members of our board. In addition, 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 and, if issued, our Class C capital stock less attractive to some investors or otherwise harm our stock price.

***Delaware law and provisions in our restated certificate of incorporation and bylaws could make a merger, tender offer, or proxy contest difficult, thereby depressing the trading price of our Class A common stock.***

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 current restated certificate of incorporation and bylaws 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 requires the approval of a majority of our outstanding Class B common stock voting as a separate class;



- we currently 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 are authorized to call a special meeting of stockholders;
- advance notice procedures 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 authorizes 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.

We intend to amend and restate our restated certificate of incorporation to create, as further described above, a new class of non-voting capital stock which may prolong Mr. Zuckerberg's 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.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.****a) Sales of Unregistered Securities**

None.

**c) Issuer Purchases of Equity Securities**

The following table summarizes the share repurchase activity for the three months ended March 31, 2017 :

	<b>Total Number of Shares Purchased <sup>(1)</sup></b>	<b>Average Price Paid Per Share <sup>(2)</sup></b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Programs <sup>(1)</sup></b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</b>
	<b>(in thousands)</b>		<b>(in thousands)</b>	<b>(in millions)</b>
January 1 – 31, 2017	1,939	\$ 117.82	1,939	\$ 5,772
February 1 – 28, 2017 <sup>(3)</sup>	18	\$ —	—	5,772
March 1 – 31, 2017	—	\$ —	—	5,772
	<u>1,957</u>		<u>1,939</u>	<u>\$ 5,772</u>

(1) In November 2016, our board of directors authorized a \$6.0 billion share repurchase program of our Class A common stock, beginning in January 2017 and which does not have an expiration date. The timing and actual number of shares repurchased depend on a variety of factors, including price, general business and market conditions, and other investment opportunities, through open market purchases or privately negotiated transactions, including through the use of trading plans intended to qualify under Rule 10b5-1 under the Exchange Act.

(2) Average price paid per share includes costs associated with the repurchases.

(3) These shares were repurchased as a result of us exercising a right to repurchase unvested shares originally issued in connection with an acquisition to an individual who is no longer employed by us and not pursuant to our publicly announced program noted in footnote (1) above. The shares were repurchased at par value of \$0.000006 per share.

**Item 6. Exhibits**

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.1	2012 Equity Incentive Plan forms of award agreements.					X
31.1	Certification of Mark Zuckerberg, Chief Executive Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of David M. Wehner, Chief Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1#	Certification of Mark Zuckerberg, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
32.2#	Certification of David M. Wehner, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS	XBRL Instance Document.					X
101.SCH	XBRL Taxonomy Extension Schema Document.					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.					X
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.					X

# This certification is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended (Securities Act), or the Exchange Act.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Menlo Park, State of California, on this 4th day of May 2017 .

### FACEBOOK, INC.

Date: May 4, 2017

/s/ MARK ZUCKERBERG

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Mark Zuckerberg  
Chairman and Chief Executive Officer  
*(Principal Executive Officer)*

Date: May 4, 2017

/s/ DAVID M. WEHNER

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David M. Wehner  
Chief Financial Officer  
*(Principal Financial Officer)*

**FACEBOOK, INC.**  
**2012 EQUITY INCENTIVE PLAN**  
**NOTICE OF RESTRICTED STOCK UNIT AWARD**  
**GRANT NUMBER:**

Unless otherwise defined herein, the terms defined in the Facebook, Inc. (the “*Company*”) 2012 Equity Incentive Plan (the “*Plan*”) shall have the same meanings in this Notice of Restricted Stock Unit Award (the “*Notice*”).

**Name:**

**Address:**

You (“*Participant*”) have been granted an award of Restricted Stock Units (“*RSUs*”) under the Plan subject to the terms and conditions of the Plan, this Notice and the attached Award Agreement (Restricted Stock Units) (hereinafter “*RSU Agreement*”).

**Number of RSUs:**

**Date of Grant:**

**Vesting Commencement Date:**

**Expiration Date:** The date on which settlement of all RSUs granted hereunder occurs, with earlier expiration upon the Termination Date

**Vesting Schedule:** Subject to the limitations set forth in this Notice, the Plan and the RSU Agreement, the RSUs will vest in accordance with the following schedule:

By accepting (whether in writing, electronically or otherwise) the RSUs, and as a condition to and in consideration of the grant, vesting, and settlement of the RSUs, Participant acknowledges and agrees to the following:

Participant agrees and acknowledges that in the event Participant’s service status with the Company (or a Subsidiary or affiliate, as the case may be) changes: (i) the Vesting Schedule may change prospectively, or (ii) a portion of the award may be subject to forfeiture. Any such changes or forfeiture will occur in accordance with Company policies including but not limited to policies relating to full- or part-time status, leaves of absence, work schedules, and vesting of awards.

Participant understands that Participant’s employment or consulting relationship or service with the Company (or a Subsidiary or affiliate, as the case may be) is for an unspecified duration, can be terminated at any time in accordance with the applicable law (which may include “at-will” employment) and that nothing in this Notice, the RSU Agreement or the Plan changes the nature of that relationship. Participant acknowledges that the vesting of the RSUs pursuant to this Notice is earned only by continuing service as an Employee, Director or Consultant of the Company (or a Subsidiary or affiliate, as the case may be). By receiving the RSUs, Shares, or otherwise any benefit relating to the RSUs, Participant also acknowledges that this Notice is subject to the terms and conditions of both the RSU Agreement and the Plan, both of which are incorporated herein by reference, Participant has read both the RSU Agreement and the Plan, and Participant consents to the electronic delivery as set forth in the RSU Agreement.

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Finally, please note that the RSU Agreements includes the Country-Specific Addendum, which provides additional notices, disclaimers, and/or terms and conditions that apply to employees in the countries listed. Participant understands and agrees that if Participant works, resides, moves to, or otherwise is or becomes subject to applicable laws or Company policies of any such jurisdictions at any time, such country-specific notices, disclaimers and/or terms and conditions will apply to Participant, unless otherwise determined by the Company in its sole discretion. In particular, any elections or special provisions for such country (including but not limited to provisions for certain tax treatment; social contributions, e.g., the pass-through of employer National Insurance Contributions in the United Kingdom; potential or mandatory forfeiture of grants in certain circumstances or countries, e.g., Israel or China; and applicable holding periods, sale restrictions, or processing of proceeds) may apply to Participant's RSUs or Shares as from the date of grant, even if Participant was not subject to such country laws or policies at the time of grant. However, because applicable laws and policies are subject to change, the Country-Specific Addendum is not exhaustive. As provided for in the RSU Agreement, the Company also retains the right to impose other requirements in relation to Participant's participation in the Plan to the extent necessary or advisable in order to comply with applicable laws or facilitate the administration of the Plan or this Agreement and to require Participant to sign any additional agreements or undertakings that may be necessary or advisable to accomplish the foregoing.

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**FACEBOOK, INC.**  
**2012 EQUITY INCENTIVE PLAN**  
**RESTRICTED STOCK UNIT AWARD AGREEMENT**

Unless otherwise defined herein, the terms defined in the Facebook, Inc. (the “*Company*”) 2012 Equity Incentive Plan (the “*Plan*”) shall have the same defined meanings in this Award Agreement (Restricted Stock Units) (the “*Agreement*”).

Participant has been granted Restricted Stock Units (“*RSUs*”) subject to the terms, restrictions and conditions of the Plan, the Notice of Restricted Stock Unit Award (the “*Notice*”) and this Agreement.

1. **Settlement.** Settlement of RSUs shall be made within 30 days following the applicable date of vesting under the vesting schedule set forth in the Notice. Settlement of RSUs shall be in Shares.
  2. **No Stockholder Rights.** Unless and until such time as Shares are issued in settlement of vested RSUs, Participant shall have no ownership of the Shares allocated to the RSUs and shall have no right to dividends or to vote such Shares.
  3. **Dividend Equivalents.** Dividends, if any (whether in cash or Shares), shall not be credited to Participant.
  4. **Non-Transferability of RSUs.** RSUs may not be sold, assigned, transferred, pledged, hypothecated, or otherwise disposed of in any manner other than by will or by the laws of descent or distribution or court order or unless otherwise permitted by the Committee on a case-by-case basis.
  5. **Termination.** If Participant’s service Terminates for any reason, all unvested RSUs shall be forfeited to the Company forthwith, and all rights of Participant to such RSUs shall immediately terminate. In case of any dispute as to whether Termination has occurred, the Company shall have sole discretion to determine whether such Termination has occurred and the effective date of such Termination for purposes of the Plan. For the avoidance of doubt, it is noted that, except as may be agreed to in the sole discretion of the Company, if Participant is Terminated by his/her employer for any reason or if Participant’s Termination is due to his/her voluntary resignation, all unvested RSUs shall be forfeited as of the date on which Participant is no longer actively providing services, and no vesting shall continue during any notice period that may be mandated in relation to his Termination, whether specified under contract or applicable law, including any “garden leave” or similar period.
  6. **Withholding Taxes.** Prior to the settlement of Participant’s RSUs and as a condition to and in consideration of the grant, vesting, and settlement of the RSUs, Participant shall pay or make adequate arrangements satisfactory to the Company (and any Subsidiary or affiliate) to satisfy all withholding obligations of the Company (and any Subsidiary or affiliate) and any other amounts in relation to the RSUs, including any applicable taxes, social contributions, required deductions, or other payments. In this regard, Participant authorizes the Company (and any Subsidiary or affiliate) to withhold all such amounts legally payable by Participant. In this regard, Participant authorizes the Company (and any Subsidiary or affiliate), at the direction and discretion of the Committee, to satisfy all obligations by one or a combination of the following: (i) payment of a cash amount by Participant, (ii) by withholding from Participant’s wages or other cash compensation paid to Participant by the Company (and any Subsidiary or affiliate), (iii) withholding Shares based on the Fair Market Value of the Shares that otherwise would be issued to Participant when Participant’s RSUs are settled, provided that the Company does not withhold more than the amount of Shares necessary to satisfy the maximum statutory withholding amount, (iv) by withholding from proceeds of the sale of Shares acquired upon settlement of the RSUs through a voluntary or mandatory sale arranged by the Company (on Participant’s behalf pursuant to this authorization without further action by Participant), or (v) by any other arrangement approved by the Committee, all under such rules as may be established by the Committee and in compliance with the Company’s Insider Trading Policy and 10b5-1 Trading Plan Policy, if applicable. The Company may refuse to deliver the Shares if Participant fails to comply with Participant’s obligations in connection with the tax withholding or other payments as described in this section.
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7. **Acknowledgement.** As a condition to, and in consideration of, the grant, vesting, and settlement of the RSUs, the Company and Participant agree that the RSUs are granted under and governed by the Notice, this Agreement (including the Country-Specific Addendum hereto) and the provisions of the Plan. By receiving the RSUs, Shares, or otherwise any benefit relating to the RSUs, Participant: (i) acknowledges receipt of a copy of the Plan and the Plan prospectus, (ii) represents that Participant has carefully read and is familiar with their provisions, and (iii) hereby accepts the RSUs subject to all of the terms and conditions set forth herein and those set forth in the Plan and the Notice.

8. **Entire Agreement; Enforcement of Rights.** This Agreement, the Plan and the Notice constitute the entire agreement and understanding of the parties relating to the subject matter herein and supersede all prior discussions between them. Any prior agreements, commitments or negotiations concerning the purchase of the Shares hereunder are superseded. No modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement, shall be effective unless in writing and signed by the parties to this Agreement. The failure by either party to enforce any rights under this Agreement shall not be construed as a waiver of any rights of such party.

9. **Data Protection.** In order to enable the Company to properly administer the Plan and the RSUs received by the Participant pursuant to the Plan, Participant hereby gives explicit consent to the Company, any Subsidiary or Parent of the Company, and/or any delegates to collect and process (electronically or otherwise) personal data, including sensitive and financial data, about himself or herself necessary to administer the Plan and RSUs received by Participant pursuant to the Plan. Such data may include, but is not limited to, Participant's name, work authorization, government or tax identification number, date of birth, beneficiaries' contact information, RSU grant history, and compensation information. Participant also hereby gives explicit consent to the Company and related entities to transfer (electronically or otherwise) any such data outside the country in which Participant is living or employed (including to the United States), as well as to third-party providers (in Participant's home country or the United States or other countries) of legal, tax, benefits, administration or other services to the Company, related entities, or employees. The legal person for whom such personal data is intended to be used is the Company and/or its related entities. Participant further understands that the Company and/or its Subsidiary or Parent may report information regarding the Participant and/or the RSU to tax authorities or other governmental agencies as may be required to comply with applicable laws.

10. **Compliance with Laws and Regulations.** The issuance of Shares will be subject to and conditioned upon compliance by the Company and Participant with all applicable national or local laws and regulations and with all applicable requirements of any stock exchange or automated quotation system on which the Company's Common Stock may be listed or quoted at the time of such issuance or transfer. Furthermore, Participant understands that the applicable laws of the country and/or state or province in which Participant is living or working at the time of grant, vesting and/or settlement of the RSUs and/or disposition of the Shares received thereunder (including any rules or regulations governing securities, foreign exchange, tax, labor or other matters) and any other applicable laws may restrict or prevent settlement of the RSUs and/or disposition of the Shares received thereunder or may subject Participant to additional procedural or regulatory requirements Participant is solely responsible for and will have to independently fulfill in relation to the RSUs or ownership or sale of Shares or in order to otherwise receive any benefit under this RSU. Such local requirements may be outlined in but are not limited to the Country-Specific Addendum attached hereto.

11. **Addendum and Additional Requirements.** Notwithstanding any provisions in the Plan, the Notice or this Agreement, the RSUs and any Shares to be issued thereunder shall be subject to the terms and conditions set forth in the Country-Specific Addendum that may apply due to Participant's country of residence or work upon grant, vesting or settlement of RSUs or the disposition of Shares received thereunder or upon Participant's relocation to another country. Moreover, the Company reserves the right to impose other requirements in relation to Participant's participation in the Plan to the extent necessary or advisable in order to comply with applicable laws or facilitate the administration of the Plan or this Agreement and to require Participant to sign any additional agreements or undertakings that may be necessary or advisable to accomplish the foregoing. Such requirements will apply as from the date of grant, including in circumstances where Participant moves to another country, unless otherwise determined by the Company in its sole discretion.

12. **Governing Law; Severability.** If one or more provisions of this Agreement are held to be unenforceable under applicable law, the parties agree to renegotiate such provision in good faith. In the event that the parties cannot

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reach a mutually agreeable and enforceable replacement for such provision, then (i) such provision shall be excluded from this Agreement, (ii) the balance of this Agreement shall be interpreted as if such provision were so excluded and (iii) the balance of this Agreement shall be enforceable in accordance with its terms. This Agreement and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of Delaware, without giving effect to principles of conflicts of law. For purposes of litigating any dispute that may arise directly or indirectly from the Plan, the Notice and this Agreement, the parties hereby submit and consent to litigation in the exclusive jurisdiction of the State of California and agree that any such litigation shall be conducted only in the courts of California or the federal courts of the United States for the Northern District of California and no other courts.

13. **No Rights as Employee, Director or Consultant**. Nothing in this Agreement shall affect in any manner whatsoever the right or power of the Company, or a Parent or Subsidiary of the Company, to terminate Participant's service in accordance with applicable laws, which may provide for the termination of Participant's service for any reason, with or without cause.

14. **Discretionary and Voluntary Notice of Grant**. As a condition to, and in consideration of, the grant, vesting, and settlement of RSUs, and in receiving the award of RSUs, Shares, or any other benefit relating to the RSUs, Participant acknowledges and agrees that:

(a) the Plan is established voluntarily by the Company, it is discretionary in nature, and it may be unilaterally modified, amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Agreement;

(b) the grant of the RSUs is voluntary and occasional and does not create any contractual or other right to receive future grants of RSUs or other Awards, or benefits in lieu of RSUs, even if RSUs have been awarded repeatedly in the past;

(c) all decisions with respect to future grants of RSUs, if any, will be at the sole discretion of the Company;

(d) Participant is voluntarily participating in the Plan;

(e) the RSUs and any Shares acquired under the Plan are an extraordinary item that do not constitute compensation of any kind for services of any kind rendered to the employer, the Company or any Subsidiary or Parent of the Company and are outside the scope of Participant's employment or service contract, if any;

(f) the RSUs and any Shares acquired under the Plan are not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculation of any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the employer, the Company or any Subsidiary or Parent;

(g) in the event that Participant is not an Employee of the Company, the RSUs and Participant's participation in the Plan will not be interpreted to form an employment or service contract or relationship with the Company; and, furthermore, the RSUs and Participant's participation in the Plan will not be interpreted to form an employment or service contract or relationship with any Subsidiary or affiliate of the Company;

(h) the future value of the underlying Shares to be issued when the RSUs vest or are settled, if any, is unknown and cannot be predicted with certainty, and the Company is not liable for any decrease in the value of such RSUs or Shares nor for any foreign exchange fluctuations between Participant's local currency and the United States Dollar that may affect the value of any benefit Participant may receive in relation to the RSUs or the Shares received thereunder; and

(i) no claim or entitlement to compensation or damages shall arise from termination of the RSUs or from any diminution in value of the RSUs or the Shares acquired upon vesting or settlement of the RSUs, and Participant irrevocably releases the employer, the Company and any Subsidiary or Parent from any such claim that may arise; if,

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notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, then, by signing the Notice, Participant shall be deemed irrevocably to have waived his or her entitlement to pursue such claim.

By Participant's acceptance (whether in writing, electronically or otherwise) of the Notice or receipt of the RSUs or Shares, and as a condition to and in consideration of the grant, vesting, and settlement of the RSUs, Participant and the Company agree that this RSU is granted under and governed by the terms and conditions of the Plan, the Notice and this Agreement (including any applicable terms as provided in the Country-Specific Addendum). To the extent Participant has been provided with a copy of the Notice, the Plan, this Agreement or any other documents relating to the RSU in a language other than English, the English language documents will prevail in the case of any ambiguities or divergences as a result of translation. Participant has reviewed the Plan, the Notice and this Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Agreement, and fully understands all provisions of the Plan, the Notice and this Agreement. As a condition, and in consideration of, the grant, vesting, and settlement the RSUs and the issuance of Shares and Participant's receipt thereof, Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions relating to the Plan, the Notice and this Agreement. Participant further agrees to notify the Company upon any change in Participant's residence address. By acceptance of this RSU as described herein, Participant consents to the electronic delivery of the Notice, this RSU Agreement, the Plan, account statements, Plan prospectuses required by the Securities and Exchange Commission, U.S. financial reports of the Company, and all other documents that the Company is required to deliver to its security holders (including, without limitation, annual reports and proxy statements) or other communications or information related to the RSU. Electronic delivery may include the delivery of a link to a Company intranet or the internet site of a third party involved in administering the Plan, the delivery of the document via e-mail or such other delivery determined at the Company's discretion.

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## Country-Specific Addendum

This Addendum includes additional country-specific notices, disclaimers, and/or terms and conditions that apply to Participants who work or live in the countries listed below and that may be material to Participant's participation in the Plan. Such notices, disclaimers, and/or terms and conditions may also apply if Participant moves to or otherwise is or becomes subject to the applicable laws or Company policies of the country listed. However, because foreign exchange regulations and other local laws are subject to frequent change, Participant is advised to seek advice from Participant's own personal legal and tax advisor prior to accepting a grant or holding or selling Shares acquired under the Plan. Unless otherwise noted below, capitalized terms shall take the same definitions assigned to them under the Plan and the Agreement. This Addendum forms part of the Agreement and should be read in conjunction with the Plan.

Unless otherwise noted, neither the Company nor the Shares are registered with any local stock exchange or under the control of any local securities regulator outside the U.S. This Agreement (of which this Addendum is a part), the Plan, and any other communications or materials that you may receive regarding participation in the Plan do not constitute advertising or an offering of securities outside the U.S. The issuance of securities described in any Plan-related documents is not intended for offering or public circulation in your jurisdiction.

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### **European Union**

#### **Data Privacy**

The following supplements Section 9 of the Agreement: Participant understands that personal data will be held only as long as is necessary to implement, administer and manage Participant's participation in the Plan. Participant understands that he or she may, at any time, view his or her personal data, request additional information about the storage and processing of personal data, require any necessary amendments to personal data without cost, request a list of the names and addresses of any recipients of the personal data, or refuse or withdraw the consents herein or by contacting in writing Participant's local human resources representative.

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### **Argentina**

#### **Foreign Exchange Restrictions**

US dollar transactions must be conducted through a financial intermediary authorized by the Argentine Central Bank. US dollar proceeds from the sale of stock by a participant, when remitted to Argentina, are subject to conversion to Argentine pesos at applicable exchange rates, as well as relevant regulations of the Central Bank. Depending on the amount, you may also be required to file certain documentation of the sale with the local bank or otherwise place the funds in a non-interest-bearing US dollar-denominated mandatory deposit account for a holding period of 365 days. As the restrictions may change, please confirm the foreign exchange requirements with your local bank before any transfer of funds into or out of Argentina.

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**Australia****Securities Law Notice**

This disclosure has been prepared in connection with offers to employees in Australia under the Plan and the Agreement (copies of which are enclosed). It has been prepared to ensure that this grant and any other grant under the Plan (the "Offer") satisfies the conditions for exemptions granted by the Australian Securities and Investments Commission ("ASIC") under ASIC Class order 14/1000.

Any advice given to you in connection with the Offer is general advice only. It does not take into account the objectives, financial situation and needs of any particular person. No financial product advice is provided in the documentation relating to the Plan and nothing in the documentation should be taken to constitute a recommendation or statement of opinion that is intended to influence you in making a decision to participate in the Plan. This means that you should consider obtaining your own financial product advice from an independent person who is licensed by the ASIC to give such advice. Facebook, Inc. will make available upon your request the Australian dollar equivalent of the current market price of the underlying Shares subject to your RSUs. You can get those details by contacting [peeps@fb.com](mailto:peeps@fb.com).

**Issue of RSUs**

RSUs will be issued for no consideration.

**Risks of Participation in the Plan**

Participation in the Plan and acquiring Shares in Facebook, Inc. carries inherent risks. You should carefully consider these risks in light of your investment objectives and personal circumstances.

**Settlement**

Notwithstanding any discretion in the Plan, the Notice or the Agreement to the contrary, settlement of the RSUs shall be in Shares and not, in whole or in part, in the form of cash.

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**Belgium****Foreign Assets Reporting**

If you are a resident of Belgium, you will be required to submit an annual form declaring your income or assets (including shares acquired under an employee share plan) held outside of Belgium to the National Bank of Belgium. The reporting should be completed prior to filing your annual Belgian income tax return.

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**Brazil****Foreign Assets Reporting**

If you are a resident of Brazil, you will be required to submit an annual declaration of assets and rights held outside of Brazil to the Central Bank of Brazil ("BACEN") if the aggregate value of such assets and rights (including any capital gain, dividend or profit attributable to such assets) is equal to or greater than US \$100,000. The reporting should be completed at the beginning of the year.

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## Canada

### **Employee Tax Treatment**

For Canadian federal income tax purposes, the RSU is intended to be treated as an agreement by the Company to sell or issue shares to the Employee and, as such, is intended to be subject to the rules in section 7 of the *Income Tax Act* (Canada). Under those rules, the Employee will be considered to have received an employment benefit at the time of settlement of the vested RSUs equal to the full value of the Shares received, which amount will be taxed as employment income and will be subject to withholding at source.

### **Settlement**

Notwithstanding any discretion in the Plan, the Notice or the Agreement to the contrary, settlement of the RSUs shall only be made in Shares issued by the Company from treasury and not, in whole or in part, in the form of cash or other consideration.

### **Foreign Share Ownership Reporting**

If you are a Canadian resident, your ownership of certain foreign property (including shares of foreign corporations) in excess of \$100,000 may be subject to ongoing annual reporting obligations. Please refer to [CRA Form T1135](#) (Foreign Income Verification Statement) and consult your tax advisor for further details. It is your responsibility to comply with all applicable tax reporting requirements.

### **Securities Law Notice**

The security represented by the Notice and the Agreement was issued pursuant to an exemption from the prospectus requirements of applicable securities legislation in Canada. Participant acknowledges that as long as the Company is not a reporting issuer in any jurisdiction in Canada, the RSUs and the underlying Shares will be subject to an indefinite hold period and that the RSUs and the underlying Shares are subject to restrictions on their transfer pursuant to such applicable securities legislation. Participant further acknowledges that (i), unless permitted under applicable securities legislation, the Participant is not permitted to transfer the RSUs or the underlying Shares before the date that is 4 months and a day after the later of (a) the date of this Agreement and (b) the date the Company became a reporting issuer (as such term is defined under applicable securities legislation) in any province or territory in Canada; (ii) the certificates representing the RSUs and the underlying Shares will bear the legend required by applicable securities legislation indicating that the resale of such securities is restricted; and (iii) the Participant has been advised to consult the Participant's own legal counsel for full particulars of the resale restrictions applicable to the Participant.

### **Quebec: Consent to Receive Information in English**

The following applies if you are a resident of Quebec: The parties acknowledge that it is their express wish that this Agreement, as well as all documents, notices and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be drawn up in English. *Les parties reconnaissent avoir exigé la rédaction en anglais de cette convention, ainsi que de tous documents exécutés, avis donnés et procédures judiciaires intentées, directement ou indirectement, relativement à la présente convention.*

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## Colombia

### **Foreign Ownership Reporting**

Prior approval from a government authority is not required to purchase and hold foreign securities or to receive an equity award. However, if the value of foreign investments, including the value of any equity awards, equals or exceeds US \$500,000, such investments must be registered with the Colombian Central Bank by June 30<sup>th</sup> of each year.

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## France

### **French Sub-Plan**

The RSUs are intended to qualify for preferred treatment under French tax and social security laws and are subject to the provisions below and the Sub-Plan to the Facebook, Inc. 2012 Equity Incentive Plan, Qualified Restricted Stock Units (FRANCE) (the “French Sub-Plan”), which has been provided to you and is incorporated herein. Capitalized terms below shall take the same definitions assigned to them under the French Sub-Plan and the Agreement.

### **Settlement**

Notwithstanding anything to the contrary stated herein, in the Notice, the Plan or the French Sub-Plan, in the case of Participant’s death, if the Participant’s heir or heirs request the delivery of the Shares subject to the RSUs within a period of six (6) months following the Participant’s death, then the RSUs will be settled in Shares as soon as practicable following the request. If no such request is made within six (6) months following the Participant’s death, the RSUs will be forfeited. In any case, settlement of RSUs shall be in Shares only and not, in whole or in part, in the form of cash.

### **Non-Transferability of RSUs**

RSUs may not be sold, assigned, transferred, pledged, hypothecated, or otherwise disposed of in any manner other than by will or by the laws of descent and, in any event, always in accordance with applicable laws.

### **Termination**

Notwithstanding anything to the contrary stated herein, in the Notice, the Plan or the French Sub-Plan, death of a Participant’s will not cause such Participant’s unvested RSUs to be immediately forfeited to the Company.

### **Minimum Vesting Period**

Notwithstanding anything to the contrary stated herein, in the Notice, the Plan or the French Sub-Plan, save the case of death a Participant, RSUs will not vest nor be settled before the first (1<sup>st</sup>) annual anniversary of the Grant Date (as defined under the French Sub-Plan) or such other period as is required to comply with the minimum mandatory holding period applicable to Shares underlying French-qualified Restricted Stock Units under Section L. 225-197-1 of the French Commercial Code, as amended, or by the French Tax Code or French Social Security Code, as amended.

### **Mandatory Holding Period**

Notwithstanding anything to the contrary stated herein, in the Notice, the Plan or the French Sub-Plan, any Shares issued to Participant upon settlement of the RSUs must be held (and cannot be sold or transferred) until expiration of a period which, together with the vesting period, can be no less than two years of the Grant Date, or such other period as is required to comply with the minimum mandatory holding period applicable to Shares underlying French-qualified Restricted Stock Units under Section L. 225-197-1 of the French Commercial Code, as amended, or by the French Tax Code or French Social Security Code, as amended; provided that if Participant dies or becomes Disabled, this mandatory holding period will not apply. In order to enforce this provision, the Company may, in its discretion, issue appropriate “stop transfer” instructions to its transfer agent or hold the Shares until the expiration of the holding period set forth above (such Shares may be held by the Company, a transfer agent designated by the Company or with a broker designated by the Company).

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### **Closed Periods**

Pursuant to article L 225-197-1 of the French *Code de commerce*, shares of a listed company cannot be sold (i) during the period of ten (10) stock-exchange trading days that precede or three (3) stock-exchange trading days that follow the date on which the consolidated accounts, or failing that, the annual accounts are made public; and (ii) during the period between the date on which the company's management has knowledge of information which, if it were made public, could have a significant impact on the price of the company's securities, and the date ten (10) stock-exchange trading days after that on which the said information is made public. These rules will apply to Participant unless Participant is otherwise restricted from selling Shares received upon settlement of RSUs under similar rules applicable under U.S. law, in which case the U.S. rules shall prevail. In any event, you are at all times required to comply with the Facebook, Inc. Insider Trading Policy as may be amended from time to time, which may be accessed at [https://our.intern.facebook.com/intern/wiki/Legal/Insider\\_Trading\\_Policy/](https://our.intern.facebook.com/intern/wiki/Legal/Insider_Trading_Policy/) and in particular Section II re No Trading on Material Non-Public Information, Black-Out Periods, and other important matters. Persons who violate these general rules and the Insider Trading Policy may be subject to legal and financial penalties. If you trade during any applicable Black-Out Period as described in the Insider Trading Policy, or if the French tax authorities deem that you have not complied with the French closed period restrictions and/or similar rules under applicable U.S. law, the RSUs and shares received under the RSUs may lose Qualified status, and you will not receive preferential tax treatment.

### **Acknowledgement**

The Company and Participant agree that the RSUs are granted under and governed by the Notice, this Agreement (including the France section of the Country-Specific Addendum), the provisions of the Plan and the French Sub-Plan. Participant: (i) acknowledges receipt of a copy of the Plan and the Plan prospectus and the French Sub-Plan, (ii) represents that Participant has carefully read and is familiar with their provisions, and (iii) hereby accepts the RSUs subject to all of the terms and conditions set forth herein and those set forth in the Plan, the French Sub-Plan, the Notice, and the Agreement.

### **Consent to Receive Information in English**

By accepting the Restricted Stock Units, Participant confirms he has read and understood the Plan and the French Sub-Plan and the Agreement including the French Country-Specific Addendum, which were provided in the English language. Participant accepts the terms of those documents accordingly. *En acceptant cette attribution gratuite d'actions, vous confirmez avoir lu et comprenez le Plan, le Sous-Plan Français et le présent Contrat, incluant tous leurs termes et conditions, qui ont été transmis en langue anglaise. Vous acceptez les dispositions de ces documents en connaissance de cause.*

### **Foreign Ownership Reporting**

Residents of France with foreign account balances in excess of EUR 1 million or its equivalent must report monthly to the Bank of France.

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## **Hong Kong**

### **Securities Law Notice**

The RSUs and any Shares issued upon vesting of the RSUs do not constitute a public offering of securities under Hong Kong law and are available only to employees of the Company and its affiliates. The Plan, the RSU Agreement, including this Addendum, and other incidental communication materials have not been prepared in accordance with and are not intended to constitute a "prospectus" for a public offering of securities under the applicable companies and securities legislation in Hong Kong and have not been registered with or authorized by any regulatory authority, including the Securities and Future Commission, in Hong Kong. This Agreement and the incidental communication materials are intended only for the personal use of each eligible Participant and not for distribution to any other persons. If you have any questions about any of the contents of this Agreement or the Plan or other incidental communication materials, you should obtain independent professional advice.

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**India****Repatriation Requirement**

You shall take all reasonable steps to repatriate to India immediately all foreign exchange received by you as a consequence of your participation in Facebook's Plan and in any case not later than 90 days from the date of sale of the stocks so acquired by you under the Plan. Further, you shall in no case take any action (or refrain from taking any action) that has the effect of:

- (a) Delaying the receipt by you of the whole or part of such foreign exchange; or
- (b) Eliminating the foreign exchange in whole or in part to be receivable by you.

Upon receipt or realization of the foreign exchange in India, including in relation to any dividend payments, you shall surrender the received or realised foreign exchange to an authorised person within a period of 180 days from the date of such receipt or realisation, as the case may be. Please note that you should keep the remittance certificate received from the bank where foreign currency is deposited in the event that the Reserve Bank of India, Facebook or your employer requests proof of repatriation.

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**Ireland****Director Reporting**

If you are a director or shadow director of the Company or related company, you may be subject to special reporting requirements with regard to the acquisition of shares or rights over shares. Please contact your personal legal advisor for further details if you are a director or shadow director.

**Settlement**

Notwithstanding any discretion in the Plan, the Notice or the Agreement to the contrary, settlement of the RSUs shall be in Shares and not, in whole or in part, in the form of cash.

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## Israel

### **Sub-Plan for Israeli Participants**

Your RSUs are granted under the Sub-Plan for Israeli Participants (the “Israeli Sub-Plan”), which is considered part of the Plan. The terms used herein shall have the meaning ascribed to them in the Plan or Israeli Sub-Plan. In the event of any conflict, whether explicit or implied, between the provision of this Agreement and the Israeli Sub-Plan, the provisions set out in the Israeli Sub-Plan shall prevail. By accepting this grant, you acknowledge that a copy of the Israeli Sub-Plan has been provided to you. The Israeli Sub-Plan may also be obtained by contacting [peeps@fb.com](mailto:peeps@fb.com).

### **Further Acknowledgement**

The following language shall be read in continuation to Section 7 of the Agreement:

Participant also (iii) declares that she/he is familiar with Section 102 and the regulations and rules promulgated thereunder, including without limitations the provisions of the tax route applicable to the RSUs, and agrees to comply with such provisions, as amended from time to time, provided that if such terms are not met, Section 102 may not apply, and (iv) agrees to the terms and conditions of the trust deed signed between the Trustee and the Company and/or the applicable Subsidiary, which is available for the Participant’s review, during normal working hours, at Company’s offices, (v) acknowledges that releasing the RSUs and Shares from the control of the Trustee prior to the termination of the Holding Period constitutes a violation of the terms of Section 102 and agrees to bear the relevant sanctions, (vi) authorizes the Company and/or the applicable Subsidiary to provide the Trustee with any information required for the purpose of administering the Plan including executing its obligations under the Ordinance, the trust deed and the trust agreement, including without limitation information about his/her RSUs, Shares, income tax rates, salary bank account, contact details and identification number, (vii) declares that he/she is a resident of the State of Israel for tax purposes on the grant date and agrees to notify the Company upon any change in the residence address indicated above and acknowledges that if his/her engagement with the Company or Subsidiary is terminated and he/she is no longer employed by the Company or any Subsidiary, the RSUs and Shares shall remain subject to Section 102, the trust agreement, the Plan and this Agreement; (viii) understands and agrees that if he/she ceases to be employed or engaged by an Israeli resident Subsidiary but remains employed by the Company or any Subsidiary thereof, all unvested RSUs shall be forfeited to the Company with all rights of the Participant to such RSUs immediately terminating prior to his/her termination of employment or services, and any Shares already issued upon the previous vesting of RSUs shall remain subject to Section 102, the trust agreement, the Plan and this Agreement; (ix) warrants and undertakes that at the time of grant of the RSUs herein, or as a consequence of the grant, the Participant is not and will not become a holder of a “controlling interest” in the Company, as such term is defined in Section 32(9) of the Ordinance, (x) the grant of RSUs is conditioned upon the Participant signing all documents requested by the Company or the Trustee.

### **Section 102 Capital Gains Trustee Route**

The RSUs are intended to be subject to the Capital Gains Route under Section 102 of the Ordinance, subject to you consenting to the requirements of such tax route by accepting the terms of this agreement and the grant of RSUs, and subject further to the compliance with all the terms and conditions of such tax route. Under the Capital Gains Route tax is only due upon sale of the Shares or upon release of the Shares from the holding or control of the Trustee.

### **Trustee Arrangement**

The RSUs, the Shares issued upon vesting and/or any additional rights, including without limitation any right to receive any dividends or any shares received as a result of an adjustment made under the Plan that may be granted in connection with the RSUs (the “Additional Rights”), shall be issued to or controlled by the Trustee for the benefit of the Participant under the provisions of the 102 Capital Gains Route and will be controlled by the Trustee for at least the period stated in Section 102 of the Ordinance and the Income Tax Rules (Tax Benefits in Share Issuance to Employees) 5763-2003 (the “Rules”). In the event the RSUs do not meet the requirements of Section 102 of the Ordinance, such RSUs and the underlying Shares shall not qualify for the favorable tax treatment under Section 102 of the Ordinance. The Company makes no representations or guarantees that the RSUs will qualify for favorable tax treatment and will not be liable or responsible if favorable tax treatment is not available under Section 102 of the Ordinance. Any fees associated with any exercise, sale, transfer or any act in relation to the RSUs shall be borne by the Participant and the Trustee and/or the Company and/or any Subsidiary shall be entitled to withhold or deduct such fees from payments otherwise due to you from the Company or a Subsidiary or the Trustee.

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**Restrictions on Sale**

In accordance with the requirements of Section 102 of the Ordinance and the Capital Gains Route, the Participant shall not sell nor transfer the Shares or Additional Rights from the Trustee until the end of the required Holding Period. Notwithstanding the above, if any such sale or transfer occurs before the end of the required Holding Period, the sanctions under Section 102 shall apply to and shall be borne by the Participant.

**Tax Treatment**

The following language supplements Section 6 of the Agreement:

The RSUs are intended to be taxed in accordance with Section 102, subject to full and complete compliance with the terms of Section 102. Participants with dual residency for tax purposes may be subject to taxation in several jurisdictions.

Any Tax imposed in respect of the RSUs and/or Shares, including, but not limited to, the grant of RSUs, and/or the vesting, transfer, waiver, or expiration of RSUs and/or Shares, and/or the sale of Shares, shall be borne solely by the Participant, and in the event of death, by the Participant's heirs. The Company, any Subsidiary, the Trustee or anyone on their behalf shall not be required to bear the aforementioned Taxes, directly or indirectly, nor shall they be required to gross up such Tax in the Participant's salaries or remuneration. The applicable Tax shall be withheld from the proceeds of sale of Shares or shall be paid to the Company or a Subsidiary or the Trustee by the Participant. Without derogating from the aforementioned, the Company or a Subsidiary or the Trustee shall be entitled to withhold Taxes as it deems complying with applicable law and to deduct any Taxes from payments otherwise due to the Participant from the Company or a Subsidiary or the Trustee. The ramifications of any future modification of applicable law regarding the taxation of the RSUs granted to the Participant shall apply to the Participant accordingly and the Participant shall bear the full cost thereof, unless such modified laws expressly provide otherwise.

The issuance of the Shares upon the vesting of RSUs or in respect thereto, shall be subject to the full payments of any Tax (if applicable).

**Securities Law**

If required under applicable law, the Company shall use reasonable efforts to receive a securities exemption from the Israeli Securities Authority to avoid the requirement to file an Israeli securities prospectus in relation to the Plan. Copies of the Plan and the Form S-8 registration statement for the Plan filed with the U.S. Securities and Exchange Commission will be made available by request from [peeps@fb.com](mailto:peeps@fb.com).

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**Italy****Data Privacy Consent**

Pursuant to Legislative Decree no. 196/2003, the Controller of personal data processing is Facebook, with registered offices at 6<sup>o</sup> Piano (6<sup>th</sup> Floor), Piazza Giuseppe Missori 2, Milan 20122, Italy, and its Representative in Italy for privacy purposes is: Luca Colombo.

I understand that Data processing related to the purposes specified above shall take place under automated or non-automated conditions, anonymously when possible, that comply with the purposes for which Data are collected and with confidentiality and security provisions as set forth by applicable laws and regulations, with specific reference to Legislative Decree no. 196/200.

The processing activity, including the communication and transfer of my Data abroad, including outside of the European Union, as herein specified and pursuant to applicable laws and regulations, does not require my consent thereto as the processing is necessary for the performance of contractual obligations related to the implementation, administration and management of the Plan. I understand that the use of my Data will be minimized where it is not necessary for the implementation, administration and management of the Plan. I further understand that, pursuant to Section 7 of the Legislative Decree no. 196/2003, I have the right to, including but not limited to, access, delete, update, ask for rectification of my Data and stop, for legitimate reason, the Data processing. Furthermore, I am aware that my Data will not be used for direct marketing purposes.

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**Japan****Exit Tax**

Please note that you may be subject to tax on your RSUs, even prior to vesting, if you relocate from Japan if you (1) hold financial assets with an aggregate value of ¥100,000,000 or more upon departure from Japan and (2) maintained a principle place of residence (*jusho*) or temporary place of abode (*kyosho*) in Japan for 5 years or more during the 10-year period immediately prior to departing Japan. You should discuss your tax treatment with your personal tax advisor.

**Securities Acquisition Report**

If you acquire Shares valued at more than ¥100,000,000 total, you must file a Securities Acquisition Report with the Ministry of Finance (“MOF”) through the Bank of Japan within 20 days of the acquisition of the Shares.

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**Korea****Repatriation Requirement**

Please note that proceeds received from the sale of stock overseas must be repatriated to Korea within eighteen (18) months if such proceeds exceed US \$500,000 per sale. Separate sales may be deemed a single sale if the sole purpose of separate sales was to avoid a sale exceeding the US \$500,000 per sale threshold.

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**Malaysia****Securities Law Notice**

The grant of Facebook equity awards in Malaysia constitutes or relates to an ‘excluded offer,’ ‘excluded invitation,’ or ‘excluded issue’ pursuant to Section 229 and Section 230 of the CMSA, and as a consequence no prospectus is required to be registered with the Securities Commission of Malaysia. The award documents do not constitute and may not be used for the purpose of a public offering or an issue, offer for subscription or purchase, invitation to subscribe for or purchase any securities requiring the registration of a prospectus with the Securities Commission in Malaysia under the CMSA.

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**Mexico****Labor Law Acknowledgment**

The invitation Facebook is making under the Plan is unilateral and discretionary and is not related to the salary and other contractual benefits granted to you by your employer; therefore, benefits derived from the Plan will not under any circumstance be considered as an integral part of your salary. Facebook reserves the absolute right to amend the Plan and discontinue it at any time without incurring any liability whatsoever. This invitation and, in your case, the acquisition of shares does not, in any way, establish a labor relationship between you and Facebook, nor does it establish any rights between you and your employer.

La invitación que Facebook hace en relación con el Plan es unilateral, discrecional y no se relaciona con el salario y otros beneficios que recibe actualmente de su actual empleador, por lo que cualquier beneficio derivado del Plan no será considerado bajo ninguna circunstancia como parte integral de su salario. Por lo anterior, Facebook se reserva el derecho absoluto para modificar o terminar el mismo, sin incurrir en responsabilidad alguna. Esta invitación y, en su caso, la adquisición de acciones, de ninguna manera establecen relación laboral alguna entre usted y Facebook y tampoco genera derecho alguno entre usted y su empleador.

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## New Zealand

### Securities Law Notice

This is an offer of Restricted Stock Units over *ordinary shares* in Facebook, Inc. (“Facebook”). Facebook shares give you a stake in the ownership of Facebook. You may receive a return if dividends or dividend equivalents are paid. If Facebook runs into financial difficulties and is wound up, shareholders will only be paid after all creditors have been paid. You may lose some or all of your investment.

New Zealand law normally requires people who offer financial products to give information to investors before they invest. This information is designed to help investors to make an informed decision. The usual rules do not apply to this offer because it is made under an employee share purchase scheme. As a result, you may not be given all the information usually required. You will also have fewer other legal protections for this investment. Ask questions, read all documents carefully, and seek independent financial advice before committing yourself.

RSUs may not be transferred other than by will or by the laws of descent or distribution, subject to the terms of the RSU Agreement. If you receive shares upon vesting of RSUs, you may sell such shares, subject to any applicable insider trading laws or other regulations and any other trading restrictions imposed by Facebook. Facebook shares are quoted on NASDAQ. This means you may be able to sell them on the NASDAQ if there are interested buyers. You may get less than you invested. The price will depend on the demand for the Facebook shares.

In addition, you are directed to Facebook’s most recent annual report and published financial statements. In compliance with New Zealand securities law, you are hereby notified that the documents listed below are available for your review on Facebook’ external and internal sites at the web addresses listed below:

Facebook’s most recent Annual Report (Form 10-K) - [www.facebook.com](http://www.facebook.com) (see “Investor Relations”);  
Facebook’s most recent published financial statements - [www.facebook.com](http://www.facebook.com) (see “Investor Relations”);  
The Plan - <http://www.schwab.com/facebook> ;  
The Plan Prospectus - <http://www.schwab.com/facebook> ; and  
The RSU Agreement (of which this Appendix is a Part) - <http://www.schwab.com/facebook> .

A copy of the above documents will be sent to you free of charge upon request to [peeps@fb.com](mailto:peeps@fb.com) . You should read the materials provided carefully before making a decision whether to participate in the Plan. When reading these materials, please note all references to the exercise price are listed in US dollars. In addition, please consult your tax advisor for specific information concerning your personal tax situation with regard to Plan participation.

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## Philippines

**Securities Law Notice.** This offering is subject to exemption from the requirements of registration with the Philippines Securities and Exchange Commission under Section 10.1 (k) of the Philippines Securities Regulation Code. **THE SECURITIES BEING OFFERED OR SOLD HAVE NOT BEEN REGISTERED WITH THE PHILIPPINES SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES REGULATION CODE. ANY FUTURE OFFER OR SALE THEREOF IS SUBJECT TO REGISTRATION REQUIREMENTS UNDER THE CODE UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.**

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## Poland

### Foreign Ownership Reporting

If you hold more than PLN 7,000,000 in foreign securities (including Shares) at year-end, you are required to report quarterly to the National Bank of Poland regarding the number and value of such securities. Such reports are filed on special forms available on the website of the National Bank of Poland. Additional forms are required if you hold 10% or more of the voting rights in a foreign entity.

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## Singapore

### **Securities Law Notice**

This grant of the RSU and the Common Stock to be issued upon vesting of the RSU shall be made available only to an employee of the Company or its Subsidiary, in reliance of the prospectus exemption set out in Section 173(1)(f) of the Securities and Futures Act (Chapter 289) of Singapore. In addition, you agree, by your acceptance of this grant, not to sell any Common Stock within six months of the date of grant. Please note that neither this Agreement nor any other document or material in connection with this offer of the RSU and the Common Stock thereunder has been or will be lodged, registered or reviewed by any regulatory authority in Singapore.

### **Director Reporting**

If you are a director or shadow director of the Company or an affiliate, you may be subject to special reporting requirements with regard to the acquisition of shares or rights over shares. Please contact your personal legal advisor for further details if you are a director or shadow director.

### **Exit Tax / Deemed Exercise Rule**

If you have received RSUs in relation to your employment in Singapore, please note that if, prior to the vesting of your RSUs, you are 1) a permanent resident of Singapore and leave Singapore permanently or are transferred out of Singapore; or 2) neither a Singapore citizen nor permanent resident and either cease employment in Singapore or leave Singapore for any period exceeding 3 months, you will likely be taxed on your unvested RSUs on a “deemed exercise” basis, even though your RSUs have not yet vested. You should discuss your tax treatment with your personal tax advisor.

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## Spain

### **Foreign Share Ownership Reporting**

If you are a Spanish resident, your acquisition, purchase, ownership, and/or sale of foreign-listed stock may be subject to ongoing reporting obligations with the Dirección General de Política Comercial e Inversiones Exteriores (“DGPCIE”) of the Ministerio de Economía, the Bank of Spain, and/or the tax authorities. These requirements change periodically, so you should consult your personal advisor to determine the specific reporting obligations. Currently, you must declare the acquisition of Shares to DGPCIE for statistical purposes. You must also declare the ownership of any Shares with the DGPCIE each January while the shares are owned. The relevant forms are Form D6 and, depending on the amount of assets, Form D8. In addition, if you perform transactions with non-Spanish residents or hold a balance of assets and liabilities with foreign parties higher than EUR 1,000,000, you may be required to report such transactions and accounts to the Bank of Spain. The frequency (monthly, quarterly or annually) of the notification will vary depending on the total value of the transactions or the balance of assets and liabilities. If you hold assets or rights outside of Spain (including Shares acquired under the Plan), you may also have to file Form 720 with the tax authorities, generally if the value of your foreign investments exceeds €50,000. Please note that reporting requirements are based on what you have previously disclosed and the increase in value and the total value of certain groups of foreign assets.

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## Taiwan

### **Exchange Control Information**

You may acquire and remit foreign currency (including proceeds from the sale of Shares) into and out of Taiwan up to US \$5,000,000 per year. If the transaction amount is TWD 500,000 or more in a single transaction, you must submit a foreign exchange transaction form and also provide supporting documentation to the satisfaction of the remitting bank. If the transaction amount is US \$500,000 or more, you may be required to provide additional supporting documentation to the satisfaction of the remitting bank. Please consult your personal advisor to ensure compliance with applicable exchange control laws in Taiwan.

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## Thailand

### **Exchange Control Information**

When you sell Shares issued to you at vesting, you must repatriate all cash proceeds to Thailand and convert such proceeds to Thai Baht within 360 days of receipt of such proceeds. In certain cases the inward remittance may then need to be reported to the Bank of Thailand, but this is typically handled by the receiving bank.

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**United Arab  
Emirates**

**Securities Law Notice**

This Plan has not been approved or licensed by the UAE Central Bank or any other relevant licensing authorities or governmental agencies in the United Arab Emirates. This Plan is strictly private and confidential and has not been reviewed by, deposited or registered with the UAE Central Bank or any other licensing authority or governmental agencies in the United Arab Emirates. This Plan is being issued from outside the United Arab Emirates to a limited number of employees of Facebook, Inc. and affiliated companies and must not be provided to any person other than the original recipient and may not be reproduced or used for any other purpose. Further, the information contained in this report is not intended to lead to the issue of any securities or the conclusion of any other contract of whatsoever nature within the territory of the United Arab Emirates.

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**United Kingdom Withholding of Tax**

This provision supplements Section 6 of the Agreement:

If payment or withholding of the Tax-Related Items (including the Employer NICs, as defined below) is not made within ninety (90) days of the event giving rise to the Tax-Related Items (the “**Due Date**”) or such other period specified in Section 222(1)(c) of the U.K. Income Tax (Earnings and Pensions) Act 2003, the amount of any uncollected Tax-Related Items will constitute a loan owed by Participant to the Employer, effective on the Due Date. Participant agrees that the loan will bear interest at the then-current Official Rate of Her Majesty’s Revenue and Customs (“**HMRC**”), it will be immediately due and repayable, and the Company or the employer may recover it at any time thereafter by any of the means referred to in Section 6 of the Agreement. Notwithstanding the foregoing, if Participant is a director or executive officer of the Company (within the meaning of Section 13(k) of the U.S. Securities and Exchange Act of 1934, as amended), Participant will not be eligible for such a loan to cover the Tax-Related Items. In the event that Participant is a director or executive officer and the Tax-Related Items are not collected from or paid by Participant by the Due Date, the amount of any uncollected Tax-Related Items will constitute a benefit to Participant on which additional income tax and national insurance contributions will be payable. Participant will be responsible for reporting and paying any income tax due on this additional benefit directly to HMRC under the self-assessment regime.

**Settlement**

Notwithstanding any discretion in the Plan, the Notice or the Agreement to the contrary, settlement of the RSUs shall be in Shares and not, in whole or in part, in the form of cash.

**NICs Joint Election**

As a condition of, and in consideration for, participation in the Plan and vesting of the RSUs and issuance of Shares, Participant agrees to accept any liability for secondary Class 1 national insurance contributions which may be payable by the Company and/or the employer in connection with the RSUs and any event giving rise to Tax-Related Items (“**Employer NICs**”). By accepting this Award (whether in writing, electronically or otherwise) including the receipt of Shares or any other benefit relating to the RSUs, Participant explicitly accepts the terms of and enters into the Form of Election to Transfer the Employer’s Secondary Class 1 National Insurance Liability to the Employee, the form of such joint election being formally approved by HMRC (the “**NICs Joint Election**”), as provided for in Annex 1 to this Addendum to the Agreement. Participant further agrees to accept any other required consent, elections or other joint elections as may be required by the Company between Participant and the Company and/or the employer or any successor to the Company and/or the Employer.

If Participant does not enter into a NICs Joint Election prior to the vesting of his/her RSUs, or if the NICs Joint Election is revoked at any time by HMRC, then unless the Company determines otherwise as provided below, the RSUs shall cease vesting and shall become null and void and no Shares will be issued under the Plan, without any liability to the Company and/or the employer.

Participant shall indemnify the Company and/or the employer against any Employer NICs and, if the Company so determines, the Company shall allow vesting of the RSUs notwithstanding the absence of a valid NICs Joint Election, and Participant agrees that, in such circumstances, the Company and/or the employer may recover the amount of any Employer NICs by way of withholding in accordance with Section 6 of the Agreement.

Participant further agrees that the Company and/or the employer may collect the Employer NICs from Participant by any of the means set forth in Section 6 of the Agreement.

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ANNEX 1

FACEBOOK INC.  
2012 EQUITY INCENTIVE PLAN

Restricted Stock Unit Awards  
for Employees in the United Kingdom

FORM OF ELECTION TO TRANSFER THE EMPLOYER'S SECONDARY  
CLASS 1 NATIONAL INSURANCE LIABILITY TO THE EMPLOYEE

1. **Parties**

This Election is between:

- (A) The named Participant (the "**Employee**"), who is employed by the employing company set out in the attached schedule (the "**Employer**"), and who is eligible to receive Restricted Stock Units ( "**RSUs**" ) pursuant to the terms and conditions of the Facebook, Inc. 2012 Equity Incentive Plan (the "**Plan**" ), and
- (B) **Facebook, Inc.** of 1601 Willow Road, Menlo Park, California 94025, U.S.A. (the "**Company**" ) which may grant RSUs under the Plan and is authorized to enter this Election on behalf of the Employer.

2. **Purpose of Election**

- 2.1 This Election relates to the Employer's secondary Class 1 national insurance contributions (the "**Employer's Liability**") which may arise on the occurrence of a "**Taxable Event**" pursuant to section 4(4)(a) of the Social Security Contributions and Benefits Act 1992, including:
- (i) the acquisition of securities pursuant to the RSUs including any dividend equivalents paid out in securities of the Company (pursuant to section 477(3)(a) ITEPA); and/or
  - (ii) the assignment or release of the RSUs in return for consideration (pursuant to section 477(3)(b) ITEPA); and/or
  - (iii) the receipt of a benefit in connection with the RSUs other than a benefit within (i) or (ii) above (pursuant to section 477(3)(c) ITEPA).

In this Election, ITEPA means the Income Tax (Earnings and Pensions) Act 2003.

- 2.2 This Election applies to all RSUs granted to the Employee under the Plan, including any dividend equivalents paid out in securities of the Company with respect to the RSUs, on or after 23 April 2012 up to the termination date of the Plan.
- 2.3 This joint election will not apply to the extent that it relates to relevant employment income which is employment income of the earner by virtue of Chapter 3A of Part 7 of ITEPA 2003 (employment income: securities with artificially depressed market value).
- 2.4 This Election does not apply in relation to any liability, or any part of any liability, arising as a result of regulations being given retrospective effect by virtue of section 4B(2) of either the Social Security Contributions and Benefits Act 1992, or the Social Security Contributions and Benefits (Northern Ireland) Act 1992.
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3. **The Election**

The Employee and the Company jointly elect that the entire liability of the Employer to pay the Employer's Liability on the Taxable Event is hereby transferred to the Employee. The Employee understands that by accepting (whether in writing, electronically or otherwise) this Election he or she will become personally liable for the Employer's Liability covered by this Election.

4. **Payment of the Employer's Liability**

- 4.1 The Employee hereby authorizes the Company and/or the Employer to collect the Employer's Liability from the Employee at any time after the Taxable Event:
- (i) by deduction from salary or any other payment payable to the Employee at any time on or after the date of the Taxable Event; and/or
  - (ii) directly from the Employee by payment in cash or cleared funds; and/or
  - (iii) by arranging, on behalf of the Employee, for the sale of some of the securities which the Employee is entitled to receive in respect of the RSUs; and/or
  - (iv) through any other method as set forth in the award agreement entered into between the Employee and the Company.
- 4.2 The Company hereby reserves for itself and the Employer the right to withhold the transfer of any securities to the Employee until full payment of the Employer's Liability is received.
- 4.3 The Company agrees to remit the Employer's Liability to Her Majesty's Revenue and Customs ( "**HMRC**" ) on behalf of the Employee within fourteen (14) days after the end of the U.K. tax month during which the Taxable Event occurs.

5. **Duration of Election**

- 5.1 The Employee and the Company agree to be bound by the terms of this Election regardless of whether the Employee is transferred abroad or is not employed by the Employer on the date on which the Employer's Liability becomes due.
- 5.2 This Election will continue in effect until the earliest of the following:
- (i) such time as both the Employee and the Company agree that it should cease to have effect;
  - (ii) on the date the Company serves notice on the Employee terminating its effect;
  - (iii) on the date the HMRC withdraws approval of this Form of Election; or
  - (iv) on the date the Election ceases to have effect in accordance with its terms in respect of any outstanding RSUs granted under the Plan.

Agreed to by the Employee by electronically accepting this award of RSUs.

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Agreed to by Facebook, Inc.

A handwritten signature in black ink, appearing to read 'Jully', is centered on the page.

**Schedule to Form of Election - Employing Companies**

The employing companies to which this Form of Election relates are:

**Facebook UK Limited**

<b>Registered Office:</b>	Gladstone House, 77-79 High Street Egham, Surrey, TW20 9HY
<b>Corporation Tax District:</b>	Central London Area
<b>Corporation Tax Reference:</b>	623/29534 12978
<b>PAYE District:</b>	Lothians Area
<b>PAYE Reference:</b>	846/BA09294

**CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Mark Zuckerberg, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Facebook, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2017

/s/ MARK ZUCKERBERG

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Mark Zuckerberg

*Chairman and Chief Executive Officer*

(Principal Executive Officer)

**CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, David M. Wehner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Facebook, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2017

/s/ DAVID M. WEHNER

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David M. Wehner

*Chief Financial Officer*

(Principal Financial Officer)

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Mark Zuckerberg, Chairman and Chief Executive Officer of Facebook, Inc. (Company), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2017 (Report) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: May 4, 2017

/s/ MARK ZUCKERBERG

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Mark Zuckerberg

*Chairman and Chief Executive Officer*

(Principal Executive Officer)

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

I, David M. Wehner, Chief Financial Officer of Facebook, Inc. (Company), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2017 (Report) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: May 4, 2017

/s/ DAVID M. WEHNER

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David M. Wehner

*Chief Financial Officer*

(Principal Financial Officer)