

**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 June 30, 2016

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, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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	2,322,958,729 shares outstanding as of July 25, 2016
Class B Common Stock \$0.000006 par value	548,705,532 shares outstanding as of July 25, 2016

FACEBOOK, INC.
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NOTE ABOUT FORWARD-LOOKING STATEMENTS

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

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

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

LIMITATIONS OF KEY METRICS AND OTHER DATA

The numbers for our key metrics, which include our daily active users (DAUs), mobile DAUs, monthly active users (MAUs), mobile MAUs, and average revenue per user (ARPU), as well as certain other metrics such as mobile-only DAUs and mobile-only MAUs, 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.

For example, there may be individuals who maintain one or more Facebook accounts in violation of our terms of service. We estimate, for example, that "duplicate" accounts (an account that a user maintains in addition to his or her principal account) may have represented less than 5% of our worldwide MAUs in 2015. 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 2015, for example, we estimate user-misclassified and undesirable accounts may have represented less than 2% 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. As such, our estimation of duplicate or false accounts may not accurately represent the actual number of such accounts. We are continually seeking to improve our ability to identify duplicate or false accounts and estimate the total number of such accounts, and such estimates may change due to improvements or changes in our methodology.

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.

Some of our metrics have also been affected by applications on certain mobile devices that automatically contact our servers for regular updates with no user action involved, and this activity can cause our system to count the user associated with such a device as an active user on the day such contact occurs. The impact of this automatic activity on our metrics varies by geography because mobile usage varies in different regions of the world. In addition, our data regarding the geographic location of our users is estimated based on a number of factors, such as the user's IP address and self-disclosed location. These factors may not always accurately reflect the user's actual location. For example, a mobile-only user may appear to be accessing Facebook from the location of the proxy server that the user connects to rather than from the user's actual location. 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. For example, some third parties are not able to accurately measure mobile users or do not count mobile users for certain user groups or at all in their analyses.

The numbers of DAUs, mobile DAUs, MAUs, mobile MAUs, mobile-only DAUs and mobile-only 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)

	June 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,108	\$ 4,907
Marketable securities	18,185	13,527
Accounts receivable, net of allowances for doubtful accounts of \$67 and \$68 as of June 30, 2016 and December 31, 2015, respectively	2,801	2,559
Prepaid expenses and other current assets	916	659
Total current assets	27,010	21,652
Property and equipment, net	7,104	5,687
Intangible assets, net	2,879	3,246
Goodwill	18,043	18,026
Other assets	703	796
Total assets	\$ 55,739	\$ 49,407
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 130	\$ 196
Partners payable	232	217
Accrued expenses and other current liabilities	1,770	1,449
Deferred revenue and deposits	79	56
Current portion of capital lease obligations	—	7
Total current liabilities	2,211	1,925
Capital lease obligations, less current portion	—	107
Other liabilities	3,145	3,157
Total liabilities	5,356	5,189
Stockholders' equity:		
Common stock, \$0.000006 par value; 5,000 million Class A shares authorized, 2,322 million and 2,293 million shares issued and outstanding, including 6 million and 8 million outstanding shares subject to repurchase, as of June 30, 2016 and December 31, 2015, respectively; 4,141 million Class B shares authorized, 548 million and 552 million shares issued and outstanding, including 2 million and 3 million outstanding shares subject to repurchase, as of June 30, 2016 and December 31, 2015, respectively	—	—
Additional paid-in capital	37,405	34,886
Accumulated other comprehensive loss	(374)	(455)
Retained earnings	13,352	9,787
Total stockholders' equity	50,383	44,218
Total liabilities and stockholders' equity	\$ 55,739	\$ 49,407

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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue	\$ 6,436	\$ 4,042	\$ 11,818	\$ 7,586
Costs and expenses:				
Cost of revenue	916	668	1,754	1,323
Research and development	1,463	1,170	2,806	2,231
Marketing and sales	899	626	1,726	1,247
General and administrative	412	305	778	579
Total costs and expenses	<u>3,690</u>	<u>2,769</u>	<u>7,064</u>	<u>5,380</u>
Income from operations	2,746	1,273	4,754	2,206
Interest and other income/(expense), net	20	—	78	(1)
Income before provision for income taxes	2,766	1,273	4,832	2,205
Provision for income taxes	711	554	1,267	974
Net income	<u>\$ 2,055</u>	<u>\$ 719</u>	<u>\$ 3,565</u>	<u>\$ 1,231</u>
Less: Net income attributable to participating securities	7	4	12	7
Net income attributable to Class A and Class B common stockholders	<u>\$ 2,048</u>	<u>\$ 715</u>	<u>\$ 3,553</u>	<u>\$ 1,224</u>
Earnings per share attributable to Class A and Class B common stockholders:				
Basic	<u>\$ 0.72</u>	<u>\$ 0.26</u>	<u>\$ 1.25</u>	<u>\$ 0.44</u>
Diluted	<u>\$ 0.71</u>	<u>\$ 0.25</u>	<u>\$ 1.23</u>	<u>\$ 0.43</u>
Weighted average shares used to compute earnings per share attributable to Class A and Class B common stockholders:				
Basic	<u>2,856</u>	<u>2,796</u>	<u>2,850</u>	<u>2,790</u>
Diluted	<u>2,904</u>	<u>2,850</u>	<u>2,896</u>	<u>2,844</u>
Share-based compensation expense included in costs and expenses:				
Cost of revenue	\$ 28	\$ 21	\$ 50	\$ 38
Research and development	623	603	1,209	1,169
Marketing and sales	93	82	175	154
General and administrative	61	57	118	105
Total share-based compensation expense	<u>\$ 805</u>	<u>\$ 763</u>	<u>\$ 1,552</u>	<u>\$ 1,466</u>

See Accompanying Notes to Condensed Consolidated Financial Statements.

FACEBOOK, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	\$ 2,055	\$ 719	\$ 3,565	\$ 1,231
Other comprehensive income (loss):				
Change in foreign currency translation adjustment, net of tax	(116)	91	20	(132)
Change in unrealized gain/loss on available-for-sale investments and other, net of tax	19	(1)	61	3
Comprehensive income	\$ 1,958	\$ 809	\$ 3,646	\$ 1,102

See Accompanying Notes to Condensed Consolidated Financial Statements.

FACEBOOK, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)
(Unaudited)

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities		
Net income	\$ 3,565	\$ 1,231
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,137	916
Share-based compensation	1,552	1,457
Deferred income taxes	(142)	(289)
Tax benefit from share-based award activity	961	809
Excess tax benefit from share-based award activity	(961)	(809)
Other	19	7
Changes in assets and liabilities:		
Accounts receivable	(225)	(198)
Prepaid expenses and other current assets	(260)	(90)
Other assets	4	(25)
Accounts payable	(39)	16
Partners payable	14	(19)
Accrued expenses and other current liabilities	422	241
Deferred revenue and deposits	23	(17)
Other liabilities	111	350
Net cash provided by operating activities	6,181	3,580
Cash flows from investing activities		
Purchases of property and equipment	(2,127)	(1,051)
Purchases of marketable securities	(9,635)	(5,560)
Sales of marketable securities	4,158	2,726
Maturities of marketable securities	903	715
Acquisitions of businesses, net of cash acquired, and purchases of intangible assets	(20)	(282)
Change in restricted cash and deposits	74	44
Net cash used in investing activities	(6,647)	(3,408)
Cash flows from financing activities		
Principal payments on capital lease and other financing obligations	(312)	(84)
Excess tax benefit from share-based award activity	961	809
Other financing activities, net	6	(12)
Net cash provided by financing activities	655	713
Effect of exchange rate changes on cash and cash equivalents	12	(77)
Net increase in cash and cash equivalents	201	808
Cash and cash equivalents at beginning of period	4,907	4,315
Cash and cash equivalents at end of period	\$ 5,108	\$ 5,123

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2016	2015
Supplemental cash flow data		
Cash paid during the period for:		
Interest	\$ 11	\$ 5
Income taxes, net	\$ 407	\$ 159
Non-cash investing and financing activities:		
Net change in accounts payable, accrued expenses and other current liabilities, and other liabilities related to property and equipment additions	\$ 89	\$ 194
Promissory note payable issued in connection with an acquisition	\$ —	\$ 198

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, 2015 .

The condensed consolidated balance sheet as of December 31, 2015 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, 2016 .

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, 2015 that have had a material impact on our condensed consolidated financial statements and related notes.

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.

Recent Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)* (ASU 2016-02), which generally requires companies to recognize operating and financing lease liabilities and corresponding right-of-use assets on the balance sheet. This guidance will be effective for us in the first quarter of 2019 on a modified retrospective basis and early adoption is permitted. We are still evaluating the effect that this guidance will have on our consolidated financial statements and related disclosures.

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. This guidance will be effective for us in the first quarter of 2018, with the option to adopt it in the first quarter of 2017. We are still evaluating the effect that this guidance will have on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, *Compensation-Stock Compensation (Topic 718): Improvement to Employee Share-based Payment Accounting* (ASU 2016-09) to simplify the accounting for share-based payment transactions, including the income tax consequences, an option to recognize gross share-based compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. This guidance will be effective for us in the first quarter of 2017, and early adoption is permitted. We are still evaluating the effect that this guidance will have on our consolidated financial statements and related disclosures.

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 and six months ended June 30, 2016 also included the effect of earn-out shares which issuance was contingent upon the completion of certain milestones. The performance milestones related to our earn-out shares were completed on June 30, 2016. Basic and dilutive securities in our basic and diluted EPS calculation for the three and six months ended June 30, 2015 excluded the effect of these earn-out shares because the milestones were not met as of June 30, 2015.

Certain RSUs were excluded from the EPS calculation because the impact would be anti-dilutive. These excluded RSUs were not material for the three and six months ended June 30, 2016 and 2015.

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 June 30,				Six Months Ended June 30,			
	2016		2015		2016		2015	
	Class A	Class B	Class A	Class B	Class A	Class B	Class A	Class B
Basic EPS:								
Numerator								
Net income	\$ 1,662	\$ 393	\$ 576	\$ 143	\$ 2,881	\$ 684	\$ 987	\$ 244
Less: Net income attributable to participating securities	6	1	3	1	10	2	6	1
Net income attributable to common stockholders	\$ 1,656	\$ 392	\$ 573	\$ 142	\$ 2,871	\$ 682	\$ 981	\$ 243
Denominator								
Weighted average shares outstanding	2,317	548	2,252	559	2,310	549	2,247	560
Less: Shares subject to repurchase	7	2	10	5	7	2	11	6
Number of shares used for basic EPS computation	2,310	546	2,242	554	2,303	547	2,236	554
Basic EPS	\$ 0.72	\$ 0.72	\$ 0.26	\$ 0.26	\$ 1.25	\$ 1.25	\$ 0.44	\$ 0.44
Diluted EPS:								
Numerator								
Net income attributable to common stockholders	\$ 1,656	\$ 392	\$ 573	\$ 142	\$ 2,871	\$ 682	\$ 981	\$ 243
Reallocation of net income attributable to participating securities	7	—	4	—	12	—	7	—
Reallocation of net income as a result of conversion of Class B to Class A common stock	392	—	142	—	682	—	243	—
Reallocation of net income to Class B common stock	—	4	—	3	—	6	—	7
Net income attributable to common stockholders for diluted EPS	\$ 2,055	\$ 396	\$ 719	\$ 145	\$ 3,565	\$ 688	\$ 1,231	\$ 250
Denominator								
Number of shares used for basic EPS computation	2,310	546	2,242	554	2,303	547	2,236	554
Conversion of Class B to Class A common stock	546	—	554	—	547	—	554	—
Weighted average effect of dilutive securities:								
Employee stock options	5	5	8	8	5	5	9	9
RSUs	35	5	40	11	35	5	39	11
Shares subject to repurchase	5	1	6	2	5	1	6	3
Earn-out shares	3	3	—	—	1	1	—	—
Number of shares used for diluted EPS computation	2,904	560	2,850	575	2,896	559	2,844	577
Diluted EPS	\$ 0.71	\$ 0.71	\$ 0.25	\$ 0.25	\$ 1.23	\$ 1.23	\$ 0.43	\$ 0.43

Note 3. Cash and Cash Equivalents, and Marketable Securities

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

	June 30, 2016	December 31, 2015
Cash and cash equivalents:		
Cash	\$ 1,959	\$ 1,703
Money market funds	2,311	2,409
U.S. government securities	207	597
U.S. government agency securities	505	145
Corporate debt securities	126	53
Total cash and cash equivalents	<u>5,108</u>	<u>4,907</u>
Marketable securities:		
U.S. government securities	6,456	5,948
U.S. government agency securities	6,493	4,475
Corporate debt securities	5,236	3,104
Total marketable securities	<u>18,185</u>	<u>13,527</u>
Total cash and cash equivalents, and marketable securities	<u>\$ 23,293</u>	<u>\$ 18,434</u>

The gross unrealized gains or losses on our marketable securities as of June 30, 2016 and December 31, 2015 were not significant. In addition, the gross unrealized losses that had been in a continuous loss position for 12 months or longer were not significant as of June 30, 2016 and December 31, 2015. As of June 30, 2016, 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):

	June 30, 2016
Due in one year	\$ 5,715
Due in one to three years	12,470
Total	<u>\$ 18,185</u>

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	June 30, 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)
Cash equivalents:				
Money market funds	\$ 2,311	\$ 2,311	\$ —	\$ —
U.S. government securities	207	207	—	—
U.S. government agency securities	505	505	—	—
Corporate debt securities	126	—	126	—
Marketable securities:				
U.S. government securities	6,456	6,456	—	—
U.S. government agency securities	6,493	6,493	—	—
Corporate debt securities	5,236	—	5,236	—
Total cash equivalents and marketable securities	\$ 21,334	\$ 15,972	\$ 5,362	\$ —
Accrued expenses and other current liabilities:				
Contingent consideration liability	\$ 85	\$ —	\$ 85	\$ —
Other liabilities:				
Contingent consideration liability	\$ 242	\$ —	\$ 242	\$ —

Description	December 31, 2015	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)
Cash equivalents:				
Money market funds	\$ 2,409	\$ 2,409	\$ —	\$ —
U.S. government securities	597	597	—	—
U.S. government agency securities	145	145	—	—
Corporate debt securities	53	—	53	—
Marketable securities:				
U.S. government securities	5,948	5,948	—	—
U.S. government agency securities	4,475	4,475	—	—
Corporate debt securities	3,104	—	3,104	—
Total cash equivalents and marketable securities	\$ 16,731	\$ 13,574	\$ 3,157	\$ —
Other liabilities:				
Contingent consideration liability	\$ 260	\$ —	\$ —	\$ 260

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.

On June 30, 2016, the performance milestones related to our contingent consideration liability were completed. Therefore, we no longer have to estimate the fair value of our contingent consideration liability based on the present value of probability-weighted future cash flows which are unobservable inputs that are not supported by market activity. As such, we reclassified our contingent consideration liability from Level 3 to Level 2.

During the three and six months ended June 30, 2016, we recognized an increase in the fair value of our contingent liability of \$42 million and \$67 million, respectively, in research and development expense in our condensed consolidated statements of income, primarily due to the completion of the performance milestones described above, and the increase in the fair value of our common stock. In addition, a portion of this contingent consideration liability was reclassified to accrued expenses and other current liabilities on our condensed consolidated balance sheets as of June 30, 2016.

Note 5. Property and Equipment

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

	June 30, 2016	December 31, 2015
Land	\$ 692	\$ 596
Buildings	2,643	2,273
Leasehold improvements	408	447
Network equipment	4,457	3,633
Computer software, office equipment and other	309	248
Construction in progress	1,247	622
Total	9,756	7,819
Less: Accumulated depreciation	(2,652)	(2,132)
Property and equipment, net	\$ 7,104	\$ 5,687

Construction in progress includes costs primarily related to construction of data centers and office buildings, and network equipment infrastructure to support our data centers around the world. No interest was capitalized during the three and six months ended June 30, 2016 and 2015.

Note 6. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for the six months ended June 30, 2016 are as follows (in millions):

Balance as of December 31, 2015	\$ 18,026
Goodwill acquired	16
Effect of currency translation adjustment	1
Balance as of June 30, 2016	\$ 18,043

Intangible assets consist of the following (in millions):

	Weighted-Average Remaining Useful Lives (in years)	June 30, 2016			December 31, 2015		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Finite-lived intangible assets:							
Acquired users	5.3	\$ 2,056	\$ (530)	\$ 1,526	\$ 2,056	\$ (382)	\$ 1,674
Acquired technology	2.7	897	(406)	491	831	(310)	521
Acquired patents	6.2	785	(378)	407	785	(333)	452
Trade names	3.6	629	(229)	400	629	(163)	466
Other	3.5	162	(107)	55	162	(89)	73
Total finite-lived intangible assets	4.7	\$ 4,529	\$ (1,650)	\$ 2,879	\$ 4,463	\$ (1,277)	\$ 3,186
Indefinite-lived intangible assets:							
In-process research and development (IPR&D)		\$ —	\$ —	\$ —	\$ 60	\$ —	\$ 60
Total intangible assets		\$ 4,529	\$ (1,650)	\$ 2,879	\$ 4,523	\$ (1,277)	\$ 3,246

We completed the IPR&D and reclassified it from indefinite-lived intangible asset to acquired technology in March 2016. We also began amortizing the balance over its estimated useful life.

Amortization expense of intangible assets was \$193 million and \$373 million for the three and six months ended June 30, 2016, respectively, and \$180 million and \$359 million for the three and six months ended June 30, 2015, respectively.

As of June 30, 2016, expected amortization expense for the unamortized acquired intangible assets for the next five years and thereafter is as follows (in millions):

The remainder of 2016	\$ 375
2017	675
2018	608
2019	518
2020	357
Thereafter	346
Total	\$ 2,879

Note 7. Long-term Debt

In May 2016, we terminated our undrawn five-year senior unsecured revolving credit facility that allowed us to borrow up to \$6.5 billion and entered into a \$2.0 billion senior unsecured revolving credit facility (2016 Facility). Any amounts outstanding under the 2016 Facility will be due and payable on May 20, 2021. As of June 30, 2016, no amounts had been drawn down and we were in compliance with the covenants under the 2016 Facility.

Note 8. Commitments and Contingencies

Commitments

Leases

We have entered into various non-cancelable operating lease agreements for certain of our offices, land, and data centers with original lease periods expiring between 2016 and 2032. 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 \$60

million and \$118 million for the three and six months ended June 30, 2016 , respectively, and \$41 million and \$79 million for the three and six months ended June 30, 2015 , respectively. As of June 30, 2016 , we had fully repaid all of our capital lease obligations.

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. In addition, the events surrounding our IPO became the subject of various state and federal government inquiries. In May 2014, the Securities and Exchange Commission (SEC) notified us that it had terminated its inquiry and that no enforcement action had been recommended by the SEC.

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. 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. With respect to our 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.

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 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 June 30, 2016, 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-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 stock dividend 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 2016.

The following table summarizes the activities of stock option awards under the Stock Plans for the six months ended June 30, 2016 :

	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, 2015	8,443	\$ 7.10		
Stock options exercised	(1,368)	3.92		
Balance as of June 30, 2016	7,075	\$ 7.72	3.4	\$ 754
Stock options vested and expected to vest as of June 30, 2016	7,073	\$ 7.72	3.4	\$ 754
Stock options exercisable as of June 30, 2016	5,351	\$ 6.00	3.1	\$ 579

(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 \$114.28 , as reported on the NASDAQ Global Select Market on June 30, 2016 .

The following table summarizes the activities for our unvested RSUs for the six months ended June 30, 2016 :

	Unvested RSUs ⁽¹⁾	
	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value
Unvested at December 31, 2015	116,409	\$ 65.95
Granted	22,847	110.45
Vested	(24,136)	57.56
Forfeited	(3,073)	71.13
Unvested at June 30, 2016	112,047	\$ 76.69

(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 and six months ended June 30, 2016 was \$1.18 billion and \$2.63 billion , respectively, and \$668 million and \$1.48 billion , respectively, during the three and six months ended June 30, 2015 .

As of June 30, 2016 , there was \$7.97 billion of unrecognized share-based compensation expense, of which (i) \$7.58 billion was related to RSUs, and (ii) \$394 million was related to restricted shares, shares related to our contingent consideration with performance conditions that were met as of June 30, 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 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 our income (loss) before provision for income taxes in multiple jurisdictions, including the portions of our share-based compensation that will not generate tax benefits, and the effects of acquisitions and the integration of those acquisitions. In addition, our effective tax rate can be more or less volatile based on the amount of income before provision for income taxes.

Our effective tax rate is lower than the United States statutory rate primarily because of income in jurisdictions with tax rates lower than that of the United States. We have not provided United States taxes for all foreign earnings because we intend to indefinitely reinvest a substantial portion of those earnings outside of the United States. Our effective tax rate in the future will depend on the portion of our profits earned within and outside the United States, which will also be affected by our methodologies for valuing our intellectual property and intercompany transactions.

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 2008 through 2013 tax years. Our 2014 and subsequent years remain open to examination by the IRS. Our 2011 and subsequent years remain open to examination in Ireland. We do not anticipate a significant impact to our gross unrecognized tax benefits within the next 12 months related to these years. On July 27, 2016, we received a Statutory Notice of Deficiency (Notice) from the IRS relating 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 aggregate amount of approximately \$3.0 - \$5.0 billion, plus interest and any penalties asserted. We do not agree with the position of the IRS and will file a petition in the United States Tax Court challenging the Notice. 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.

Our gross unrecognized tax benefits were \$3.15 billion and \$3.02 billion as of June 30, 2016 and December 31, 2015, respectively. If the gross unrecognized tax benefits as of June 30, 2016 were realized in a subsequent period, this would result in a tax benefit of \$2.46 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.

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. However, 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.

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):

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenue:				
United States	\$ 2,852	\$ 1,880	\$ 5,361	\$ 3,533
Rest of the world ⁽¹⁾	3,584	2,162	6,457	4,053
Total revenue	<u>\$ 6,436</u>	<u>\$ 4,042</u>	<u>\$ 11,818</u>	<u>\$ 7,586</u>

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

	<u>June 30,</u>	<u>December 31,</u>
	<u>2016</u>	<u>2015</u>
Property and equipment, net:		
United States	\$ 5,656	\$ 4,498
Sweden	717	713
Rest of the world ⁽¹⁾	731	476
Total property and equipment, net	<u>\$ 7,104</u>	<u>\$ 5,687</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 the 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, 2015, 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 and Six Months Ended June 30, 2016 and 2015 — 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 and six months ended June 30, 2016 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 Second Quarter Results

Our key user metrics and financial results for the second quarter of 2016 are as follows:

User growth:

- Daily active users (DAUs) were 1.13 billion on average for June 2016, an increase of 17% year-over-year.
- Mobile DAUs were 1.03 billion on average for June 2016, an increase of 22% year-over-year.
- Monthly active users (MAUs) were 1.71 billion as of June 30, 2016, an increase of 15% year-over-year.
- Mobile MAUs were 1.57 billion as of June 30, 2016, an increase of 20% year-over-year.

Financial results:

- Revenue was \$6.44 billion, up 59% year-over-year, and ad revenue was \$6.24 billion, up 63% year-over-year.
- Total costs and expenses were \$ 3.69 billion.
- Income from operations was \$2.75 billion.
- Net income was \$2.06 billion with diluted earnings per share of \$0.71.
- Capital expenditures were \$ 995 million.
- Effective tax rate was 26%.
- Cash and cash equivalents and marketable securities were \$23.29 billion as of June 30, 2016.
- Headcount was 14,495 as of June 30, 2016.

In the second quarter of 2016, we continued to make progress on our three main revenue growth priorities: (i) continuing to capitalize on the shift to mobile, (ii) growing the number of marketers using our ad products, and (iii) making our ads more relevant and effective through expanded capabilities of tools for marketers.

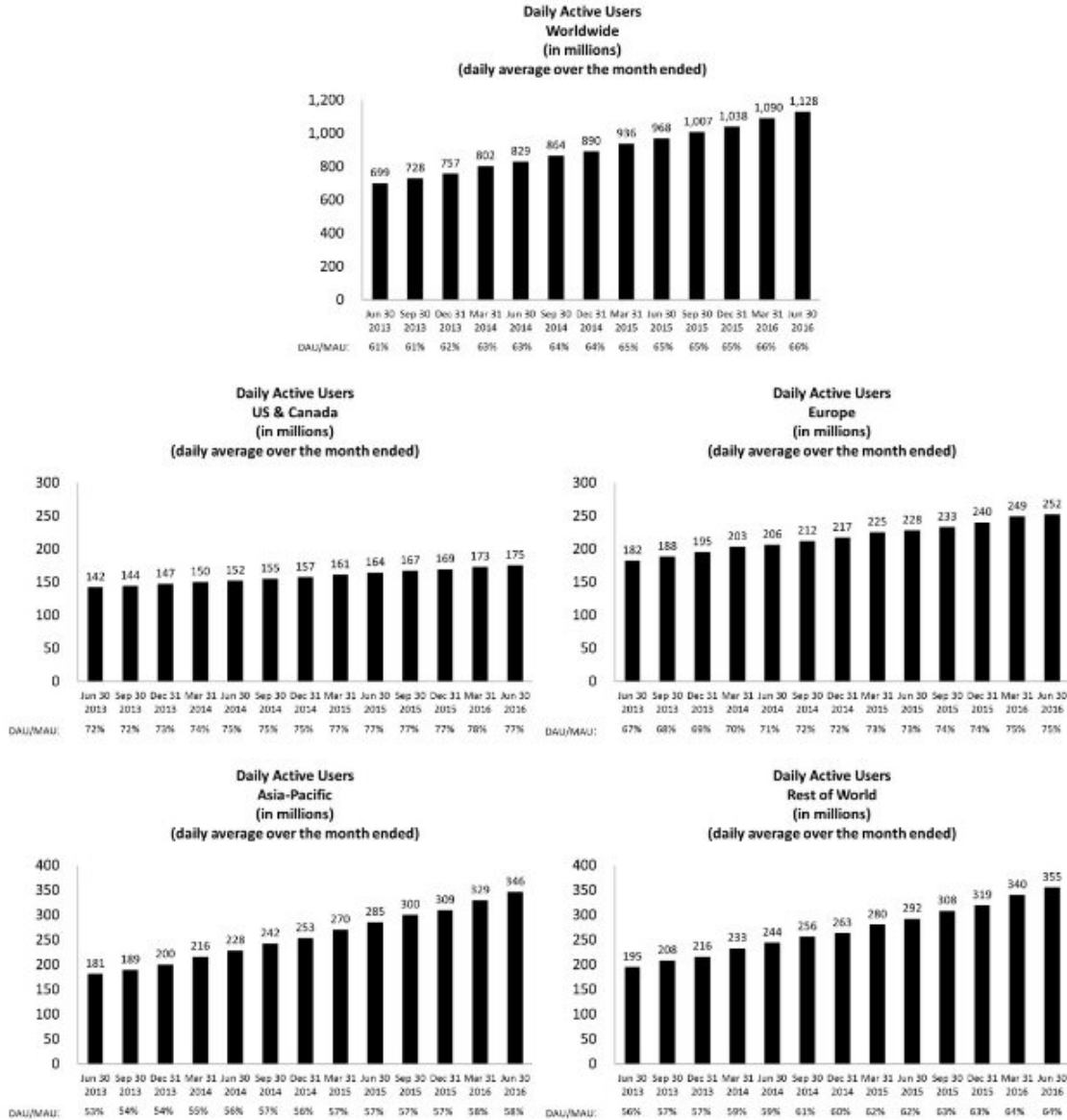
We continued to invest, based on our roadmap, in: (i) our most developed ecosystem, the Facebook app and platform, (ii) driving growth and building ecosystems around our products and features that already have significant user bases, such as Messenger, Instagram, WhatsApp and video, and (iii) long-term technology initiatives that we believe will further our mission to connect the world, such as 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 2015.

Trends in Our User Metrics

The numbers for our key metrics, our daily active users (DAUs), mobile DAUs, MAUs, mobile MAUs, and average revenue per user (ARPU), and certain other metrics such as mobile-only DAUs and mobile-only MAUs, 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.

- 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.

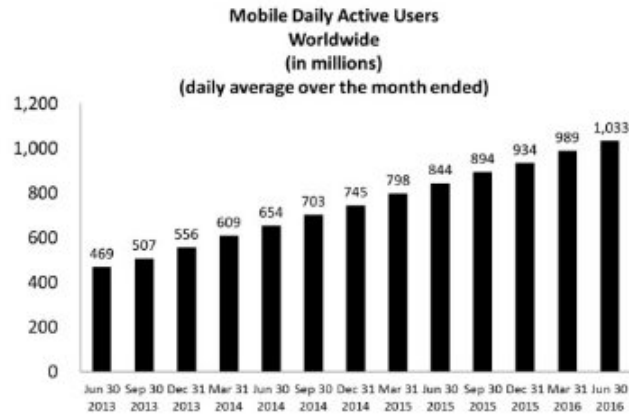


Note: For purposes of reporting DAUs, MAUs, and ARPU by geographic region, Europe includes all users in Russia and Turkey and Rest of World includes all users in Africa, Latin America, and the Middle East.

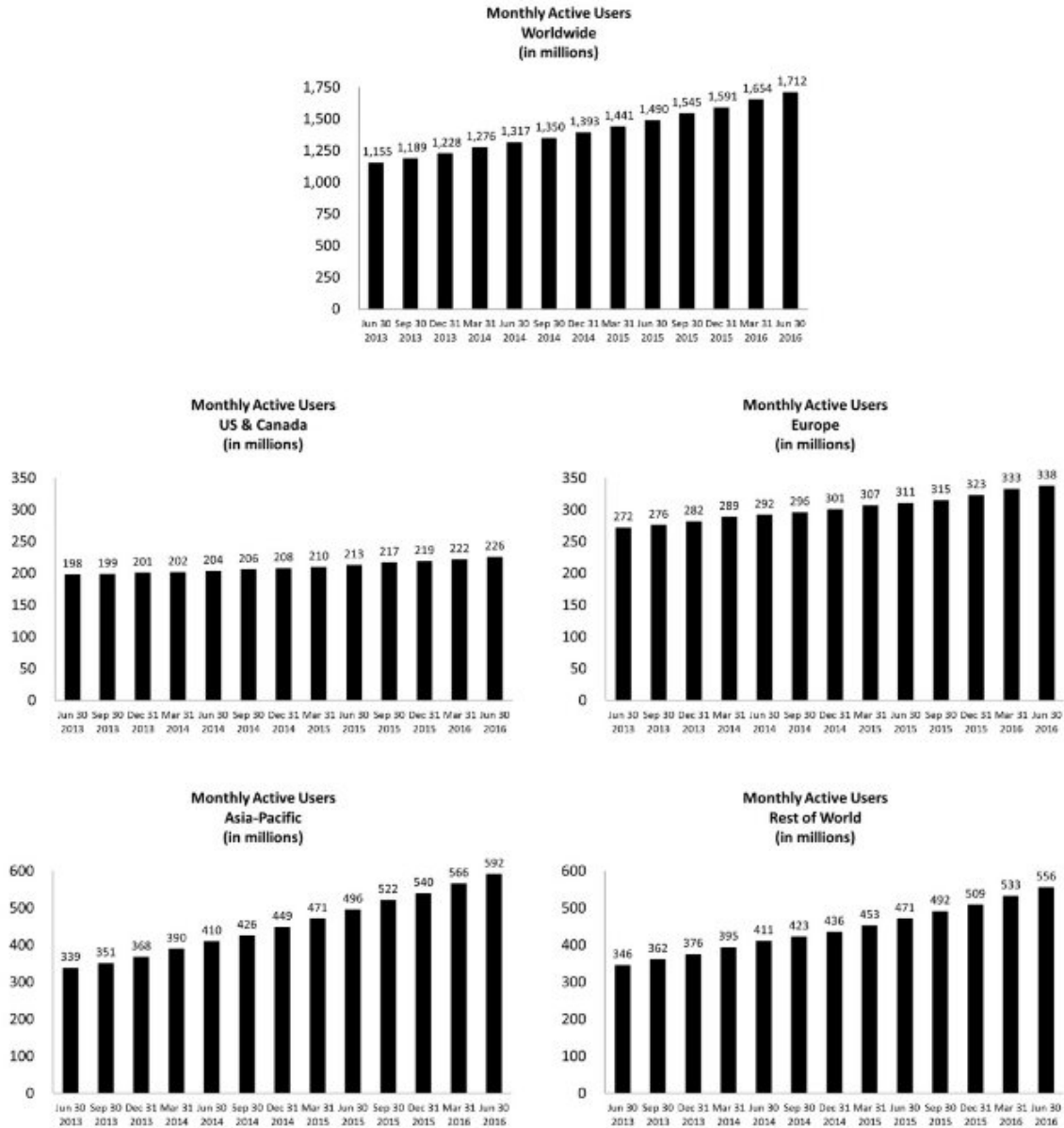
Worldwide DAUs increased 17% to 1.13 billion on average during June 2016 from 968 million during June 2015 . We experienced growth in DAUs across major markets, including India, Brazil, and the United States. Overall growth in DAUs was driven by increased mobile usage of Facebook, and the number of DAUs accessing Facebook on personal computers decreased in June 2016 , compared to the same period in 2015 . We believe that use of Facebook through personal computers will continue to decline.

- Mobile DAUs** . We define a mobile DAU as a user who accessed Facebook via a mobile application or via mobile versions of our website such as m.facebook.com, whether on a mobile phone or tablet, or used our Messenger mobile application (and is also a registered Facebook user) on a given day. We define a mobile-only DAU as a user who accessed Facebook solely through mobile applications or mobile versions of our website on a given day, whereas a mobile DAU may have also accessed Facebook on a personal computer on that day.

Worldwide mobile DAUs increased 22% to 1.03 billion on average during June 2016 from 844 million during June 2015 . In all regions, an increasing number of our DAUs accessed Facebook through mobile devices on average during June 2016 , as compared to the same period during 2015 , with users in India, Brazil, and the United States representing key sources of mobile DAU growth on average during June 2016 . On average during June 2016 , there were 885 million mobile-only DAUs, increasing 29% from 688 million mobile-only DAUs during the same period in 2015 . The remaining mobile DAUs accessed Facebook from both mobile devices and personal computers. We anticipate that growth in mobile users will continue to be the driver of our user growth for the foreseeable future.



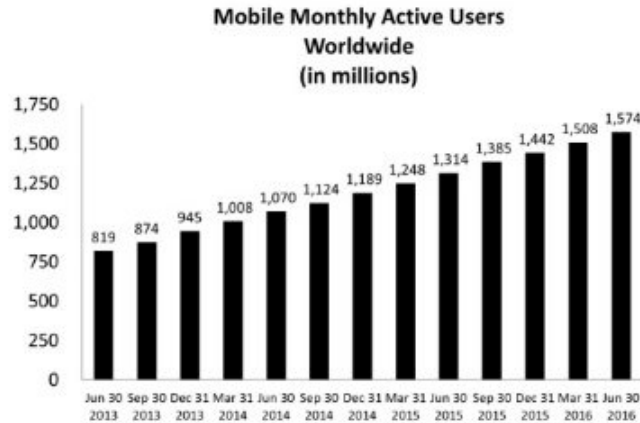
- Monthly Active Users (MAUs)** . We define a monthly active user as a registered Facebook user who logged in and visited Facebook through our website or a mobile device, or used our Messenger application (and is also a registered Facebook user), in the last 30 days as of the date of measurement. MAUs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



As of June 30, 2016, we had 1.71 billion MAUs, an increase of 15% from June 30, 2015. Users in India, Indonesia, and the United States represented key sources of growth in the second quarter of 2016, relative to the same period in 2015. Overall growth in MAUs was driven by increased mobile usage of Facebook, and the number of MAUs accessing Facebook on personal computers decreased in June 2016, compared to the same period in 2015. We believe that use of Facebook through personal computers will continue to decline.

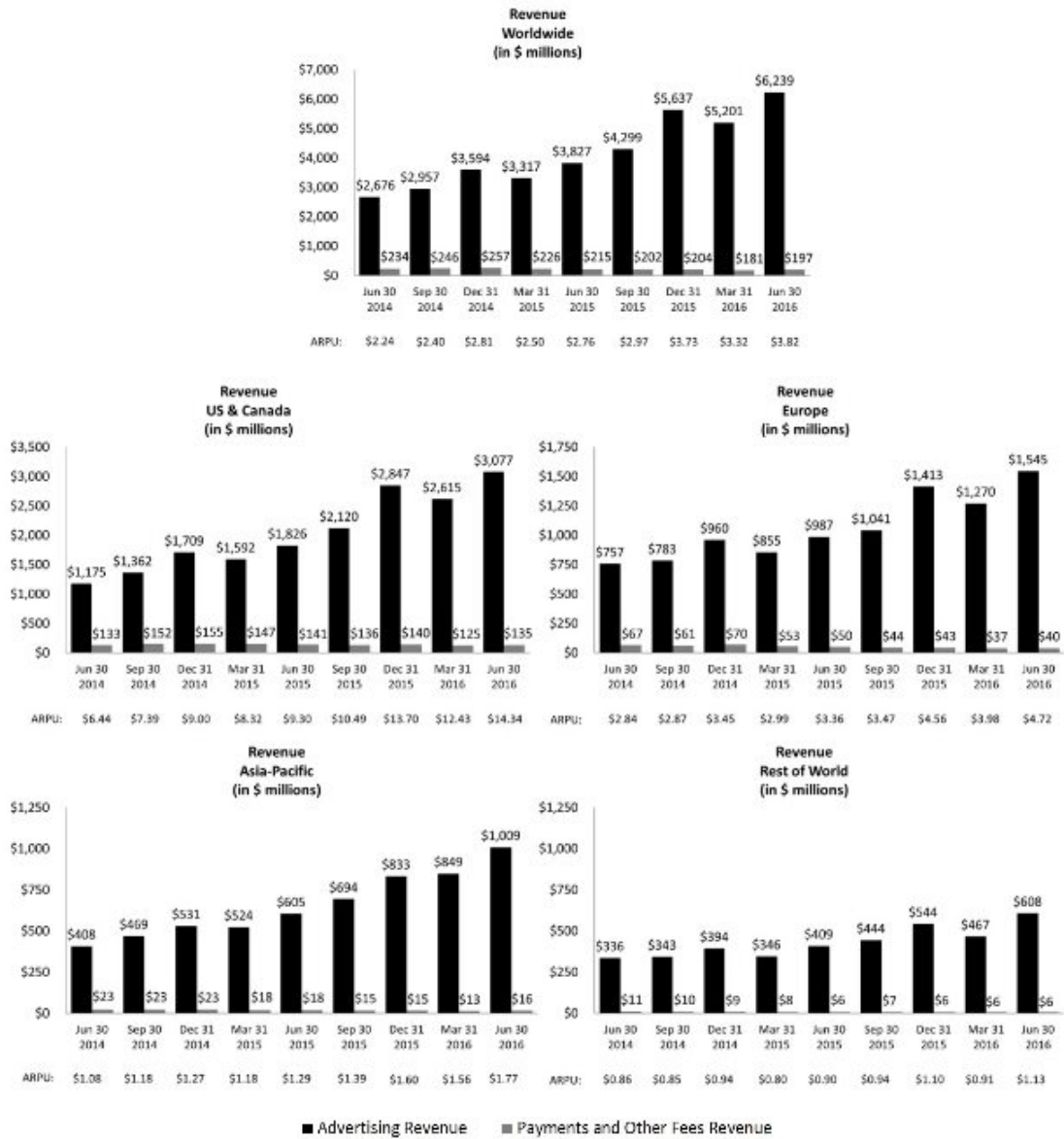
- Mobile MAUs** . We define a mobile MAU as a user who accessed Facebook via a mobile application or via mobile versions of our website such as m.facebook.com, whether on a mobile phone or tablet, or used our Messenger mobile application (and is also a registered Facebook user) during the period of measurement. We define a mobile-only MAU as a user who accessed Facebook solely through mobile applications or mobile versions of our website during the period of measurement, whereas a mobile MAU may have also accessed Facebook on a personal computer during the period of measurement.

Worldwide mobile MAUs increased 20% to 1.57 billion as of June 30, 2016 from 1.31 billion as of June 30, 2015 . In all regions, an increasing number of our MAUs accessed Facebook through mobile devices in the second quarter of 2016 , as compared to the same period in 2015 , with users in India, the United States, and Brazil representing key sources of mobile MAU growth in the second quarter of 2016 . There were 967 million mobile-only MAUs as of June 30, 2016 , increasing 48% from 655 million mobile-only MAUs during the same period in 2015 . The remaining 607 million mobile MAUs accessed Facebook from both mobile devices and personal computers during June 2016 . We anticipate that growth in mobile users will continue to be the driver of our user growth for the foreseeable future.



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. 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 second quarter of 2016 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 second quarter of 2016 , worldwide ARPU was \$3.82 , an increase of 38% from the second quarter of 2015 . Over this period, ARPU increased by 54% in United States & Canada, 40% in Europe, 37% in Asia-Pacific, and 26% in Rest of World. 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 properties, such as our mobile applications, 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, energy and bandwidth costs, and salaries, benefits, and share-based compensation for employees on our operations teams. Cost of revenue also includes credit card and other transaction fees related to processing customer transactions, amortization of intangible assets, costs associated with data partner arrangements, 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, benefits, and share-based compensation for our employees engaged in sales, sales support, marketing, business development, and customer service functions. Our marketing and sales expenses also include marketing and promotional expenditures, as well as amortization of intangible assets.

General and administrative. Our general and administrative expenses consist primarily 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 professional and legal services. General and administrative expenses also include depreciation of property and equipment and amortization of intangible assets we have acquired.

Results of Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in millions)			
Revenue	\$ 6,436	\$ 4,042	\$ 11,818	\$ 7,586
Costs and expenses:				
Cost of revenue	916	668	1,754	1,323
Research and development	1,463	1,170	2,806	2,231
Marketing and sales	899	626	1,726	1,247
General and administrative	412	305	778	579
Total costs and expenses	3,690	2,769	7,064	5,380
Income from operations	2,746	1,273	4,754	2,206
Interest and other income/(expense), net	20	—	78	(1)
Income before provision for income taxes	2,766	1,273	4,832	2,205
Provision for income taxes	711	554	1,267	974
Net income	\$ 2,055	\$ 719	\$ 3,565	\$ 1,231

Share-based compensation expense included in costs and expenses:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in millions)			
Cost of revenue	\$ 28	\$ 21	\$ 50	\$ 38
Research and development	623	603	1,209	1,169
Marketing and sales	93	82	175	154
General and administrative	61	57	118	105
Total share-based compensation expense	\$ 805	\$ 763	\$ 1,552	\$ 1,466

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue	100%	100%	100%	100%
Costs and expenses:				
Cost of revenue	14	17	15	17
Research and development	23	29	24	29
Marketing and sales	14	15	15	16
General and administrative	6	8	7	8
Total costs and expenses	57	69	60	71
Income from operations	43	31	40	29
Interest and other income/(expense), net	—	—	1	—
Income before provision for income taxes	43	31	41	29
Provision for income taxes	11	14	11	13
Net income	32%	18%	30%	16%

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Cost of revenue	—%	1%	—%	1%
Research and development	10	15	10	15
Marketing and sales	1	2	1	2
General and administrative	1	1	1	1
Total share-based compensation expense	13%	19%	13%	19%

Three and Six Months Ended June 30, 2016 and 2015

Revenue

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	% change	2016	2015	% change
<i>(in millions, except for percentages)</i>						
Advertising	\$ 6,239	\$ 3,827	63 %	\$ 11,440	\$ 7,144	60 %
Payments and other fees	197	215	(8)%	378	442	(14)%
Total revenue	\$ 6,436	\$ 4,042	59 %	\$ 11,818	\$ 7,586	56 %

Revenue in the second quarter and the first six months of 2016 increased \$2.39 billion , or 59% , and \$4.23 billion , or 56% , respectively, compared to the same periods in 2015 . The increases were primarily due to increases in advertising revenue.

The most important factor driving advertising revenue growth was an increase in revenue from ads in News Feed on mobile devices. For the second quarter and the first six months of 2016 , we estimate that mobile advertising revenue represented approximately 84% and 83% , respectively, of total advertising revenue, as compared with approximately 76% and 74% , respectively in the same periods in 2015 . Factors that influenced our mobile advertising revenue growth in the second quarter and the first six months of 2016 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 mobile 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.

In addition, during the second quarter and the first six months of 2016 , as compared to the same periods in 2015 , the average price per ad increased by 9% and 7%, respectively, and the number of ads delivered increased by 49% and 50%, respectively. The

increase in average price per ad was driven by a continued mix shift towards a greater percentage of our ads being shown in News Feed, while the increase in the ads delivered was driven by the same factors that influenced our mobile advertising revenue growth.

Payments and other fees revenue in the second quarter and the first six months of 2016 decreased \$18 million , or 8% , and \$64 million , or 14% , respectively, compared to the same periods in 2015 . The decreases in Payments and other fees revenue were primarily due to decreased Payments revenue from games played on personal computers. Facebook usage on personal computers has been declining and will continue to decline in the future, resulting in a continuing decline in our Payments revenue. We anticipate the decline in our Payments revenue will be offset, in part or in whole, by the revenue from the delivery of virtual reality platform devices and related platform sales.

Foreign Exchange Impact on Revenue

The foreign exchange impact on our revenue and advertising revenue from the second quarter of 2015 compared to the same period in 2016 was not material.

The general strengthening of the U.S. dollar relative to certain foreign currencies from the first six months of 2015 compared to the same period in 2016 had an unfavorable impact on our revenue. If we had translated revenue for the six months ended June 30, 2016 using the prior year's monthly exchange rates for our settlement currencies other than the U.S. dollar, our total revenue would have been \$12.02 billion , and our advertising revenue would have been \$11.64 billion . Using these constant rates, both revenue and advertising revenue would have been \$203 million higher than actual revenue and advertising revenue for the first six months of 2016 .

Cost of revenue

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	% change	2016	2015	% change
	<i>(in millions, except for percentages)</i>					
Cost of revenue	\$ 916	\$ 668	37%	\$ 1,754	\$ 1,323	33%
Percentage of revenue	14%	17%		15%	17%	

Cost of revenue in the second quarter and the first six months of 2016 increased \$248 million , or 37% , and \$431 million , or 33% , compared to the same periods in 2015 . The increases in both periods were primarily due to increases in operational expenses related to our data centers and technical infrastructure and, to a lesser extent, higher ads payment and processing costs.

Research and development

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	% change	2016	2015	% change
	<i>(in millions, except for percentages)</i>					
Research and development	\$ 1,463	\$ 1,170	25%	\$ 2,806	\$ 2,231	26%
Percentage of revenue	23%	29%		24%	29%	

Research and development expenses in the second quarter and the first six months of 2016 increased \$293 million , or 25% , and \$575 million , or 26% , respectively, compared to the same periods in 2015 . The majority of the increases in both periods were due to increases in payroll and benefits expenses as a result of a 34% growth in employee headcount from June 30, 2015 to June 30, 2016 in engineering and other technical functions. Additionally, in the second quarter and the first six months of 2016 , our equipment and related expenses to support our research and development efforts increased \$34 million and \$71 million, respectively, and our changes to the fair value of our contingent liability increased \$31 million and \$45 million, respectively, compared to the same periods in 2015 .

Marketing and sales

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	% change	2016	2015	% change
	<i>(in millions, except for percentages)</i>					
Marketing and sales	\$ 899	\$ 626	44%	\$ 1,726	\$ 1,247	38%
Percentage of revenue	14%	15%		15%	16%	

Marketing and sales expenses in the second quarter and the first six months of 2016 increased \$273 million , or 44% , and \$479 million , or 38% , respectively, compared to the same periods in 2015 . The increases in both periods were partially due to increases in payroll and benefits expenses as a result of a 29% increase in employee headcount from June 30, 2015 to June 30, 2016 in our marketing and sales functions. Additionally, in the second quarter and the first six months of 2016 , our marketing expenses increased \$91 million and \$137 million, respectively, and our professional services expenses increased \$62 million and \$104 million respectively, due to higher consulting and other professional service fees, compared to the same periods in 2015 .

General and administrative

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	% change	2016	2015	% change
	<i>(in millions, except for percentages)</i>					
General and administrative	\$ 412	\$ 305	35%	\$ 778	\$ 579	34%
Percentage of revenue	6%	8%		7%	8%	

General and administrative expenses in the second quarter and the first six months of 2016 increased \$107 million , or 35% , and \$199 million , or 34% , respectively, compared to the same periods in 2015 . The majority of the increases in both periods were due to increases in payroll and benefits expenses as a result of a 31% increase in employee headcount from June 30, 2015 to June 30, 2016 in general and administrative functions, and to a lesser extent, higher professional services and legal fees.

Interest and other income/(expense), net

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	% change	2016	2015	% change
	<i>(in millions, except for percentages)</i>					
Interest income/(expense), net	\$ 32	\$ 5	NM	\$ 60	\$ 7	NM
Other income/(expense), net	(12)	(5)	(140)%	18	(8)	NM
Interest and other income/(expense), net	\$ 20	\$ —	NM	\$ 78	\$ (1)	NM

Interest and other income/(expense), net in the second quarter and the first six months of 2016 increased \$20 million and \$ 79 million , respectively, compared to the same periods in 2015 . The increases in both periods were primarily due to increases in interest income/(expense), net as a result of higher invested cash balances and interest rates, which for the second quarter of 2016 , was partially offset by a decrease in other income/(expense), net. In the first six months of 2016 , the increase in other income/(expense), net also contributed to the increase in interest and other income/(expense), net. The changes in other income/(expense), net were mostly due to foreign exchange impact from the periodic re-measurement of our foreign currency balances.

Provision for income taxes

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	% change	2016	2015	% change
	<i>(in millions, except for percentages)</i>					
Provision for income taxes	\$ 711	\$ 554	28%	\$ 1,267	\$ 974	30%
Effective tax rate	26%	44%		26%	44%	

Our provision for income taxes in the second quarter and the first six months of 2016 increased \$157 million , or 28% , and \$293 million , or 30% , respectively, compared to the same periods in 2015 , primarily due to increases in pre-tax income, partially offset by decreases in the effective tax rate. Our effective tax rate in the second quarter and the first six months of 2016 decreased compared to the same periods in 2015 , primarily due to increases in pre-tax income in jurisdictions with tax rates lower than that of the United States. We have not provided United States taxes for all foreign earnings because we intend to indefinitely reinvest a substantial portion of those earnings outside of the United States.

Our effective tax rate differs from the U.S. statutory rate primarily because of the impact of operations in jurisdictions with tax rates lower than the United States, acquiring intellectual property and integrating it into our business, non-deductible share-based compensation, and tax research credits. There was no material impact from acquiring intellectual property and integrating it into our business in the second quarter and the first six months of 2016 . Our effective tax rate in the future will depend on the portion of our profits earned within and outside the United States, which will also be affected by our methodologies for valuing our intellectual property and intercompany transactions. Our future effective tax rate will also be affected by the timing, size, and integration of any acquisitions we make.

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 primarily of cash on deposit with banks, investments in money market funds, and investments in U.S. government securities, U.S. government agency securities, and corporate debt securities. Cash and cash equivalents and marketable securities were \$23.29 billion as of June 30, 2016, an increase of \$4.86 billion from December 31, 2015, primarily due to \$6.18 billion of cash generated from operations and \$961 million in excess tax benefits from share-based award activity, partially offset by \$2.13 billion for purchases of property and equipment and \$312 million for principal payments on capital lease and other financing obligations.

Cash paid for income taxes (net of refunds) was \$407 million for the first six months of 2016. As of June 30, 2016, our federal net operating loss carryforward was \$2.21 billion, and we anticipate that a relatively small portion of this amount will be utilized to offset our federal taxable income in 2016. As of June 30, 2016, we had \$795 million of federal tax credits, of which a substantial portion will be available to offset our federal tax liabilities in 2016.

In May 2016, we terminated our undrawn five-year senior unsecured revolving credit facility that allowed us to borrow up to \$6.5 billion, and entered into a \$2.0 billion senior unsecured revolving credit facility (2016 Facility). Any amounts outstanding under the 2016 Facility will be due and payable on May 20, 2021. As of June 30, 2016, no amounts had been drawn down and we were in compliance with the covenants under the 2016 Facility.

As of June 30, 2016, \$2.63 billion of the \$23.29 billion in cash and cash equivalents and marketable securities was held by our foreign subsidiaries. We have provided for residual taxes in jurisdictions where we do not intend to indefinitely reinvest the earnings of the local subsidiary.

We currently anticipate that our available funds, cash flow from operations, and credit facility 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 six months of 2016, mostly consisted of net income, adjusted for certain non-cash items, such as share-based compensation expense of \$1.55 billion and total depreciation and amortization of \$1.14 billion. The increase in cash flow from operating activities during the first six months of 2016, compared to the same period in 2015, was primarily due to an increase in net income as adjusted for depreciation and amortization, deferred income taxes, and share-based compensation expense.

Cash Used in Investing Activities

Cash used in investing activities was \$6.65 billion for the first six months of 2016, mostly due to \$4.57 billion for net purchases of marketable securities, and \$2.13 billion for capital expenditures as we continued to invest in data centers and servers, office buildings, and network infrastructure. The increase in cash used in investing activities during the first six months of 2016, compared to the same period in 2015, was mostly due to increases in net purchases of marketable securities, and in capital expenditures, partially offset by a decrease in acquisitions of businesses.

We anticipate making capital expenditures in 2016 of approximately \$4.5 billion.

Cash Provided by Financing Activities

Cash flow from financing activities during the first six months of 2016 mostly consisted of excess tax benefit from share-based award activity and principal payments on capital lease and other financing obligations. The decrease in cash provided by financing activities during the first six months of 2016, compared to the same period in 2015, was mostly due to higher principal payments related to our capital lease and other financing obligations, partially offset by an increase in excess tax benefit from share-based award activity.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of June 30, 2016.

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, 2015.

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 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 these contingencies.

Recent Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)* (ASU 2016-02), which generally requires companies to recognize operating and financing lease liabilities and corresponding right-of-use assets on the balance sheet. This guidance will be effective for us in the first quarter of 2019 on a modified retrospective basis and early adoption is permitted. We are still evaluating the effect that this guidance will have on our consolidated financial statements and related disclosures.

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. This guidance will be effective for us in the first quarter of 2018, with the option to adopt it in the first quarter of 2017. We are still evaluating the effect that this guidance will have on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, *Compensation-Stock Compensation (Topic 718): Improvement to Employee Share-based Payment Accounting* (ASU 2016-09) to simplify the accounting for share-based payment transactions, including the income tax consequences, an option to recognize gross share-based compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. This guidance will be effective for us in the first quarter of 2017, and early adoption is permitted. We are still evaluating the effect that this guidance will have on our consolidated financial statements and related disclosures.

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, 2015 .

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 a foreign currency loss of \$13 million and foreign currency gain of \$16 million in the three and six months ended June 30, 2016, respectively, and foreign currency losses of \$7 million and \$11 million in the three and six months ended June 30, 2015, 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 \$225 million and \$173 million in the market value of our available-for-sale debt securities as of June 30, 2016 and December 31, 2015, 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 June 30, 2016, 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. In addition, the events surrounding our IPO became the subject of various state and federal government inquiries. In May 2014, the Securities and Exchange Commission (SEC) notified us that it had terminated its inquiry and that no enforcement action had been recommended by the SEC.

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. We believe that the lawsuits are without merit and intend to vigorously defend against all claims asserted.

In addition, we are also currently parties to multiple other lawsuits related to our products, including intellectual property lawsuits as well as class action lawsuits brought by users and marketers, and we may in the future be subject to additional lawsuits and disputes. We are also involved in other claims, government and regulatory investigations, and proceedings arising from the ordinary course of our business.

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. 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 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, or developers;
- we, developers whose products are integrated with our products, or other companies in our industry are the subject of adverse media reports or other negative publicity; or
- our current or future products, such as 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 six months of 2016 and 2015, advertising accounted for 97% and 94% , 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. We expect our ability to grow advertising revenue will continue to be dependent on our ability to generate revenue from ads displayed on mobile devices. 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, content on our products, developers with mobile and web applications that are integrated with our products, or other companies in our industry;
- the 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.

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 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 industry or in developing products that operate effectively with these technologies, systems, networks, or standards. In the event that it is more difficult for our users to access and use Facebook 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 face significant competition in every aspect of our business, including from companies that provide tools to facilitate communication and the sharing of information, companies that enable marketers to display advertising and companies that provide development platforms for applications developers. We compete with companies that offer products that replicate the full range of capabilities we provide. For example, Google has integrated social functionality into a number of its products, including search and Android. We also compete with other, largely regional, social networks that have strong positions in particular countries, and 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. In addition, we compete with companies that provide web- and mobile-based information and entertainment products and services that are designed to engage users and capture time spent on mobile devices and online. We also 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 Facebook 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. Certain competitors, including Google, could use strong or dominant positions in one or more markets to gain competitive advantage

against us in areas where we operate, including: by integrating competing 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, particularly with respect to mobile 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, 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 and user engagement may be adversely affected, we may not be able to maintain or grow our revenue as anticipated, and our financial results could be adversely affected.

Our 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 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. We do not have prior experience with consumer hardware products or virtual reality technology, which may adversely affect our ability to successfully develop and market the Oculus Rift and related products or technology, and we will incur increased costs in connection with the development and marketing of such products and technology. In addition, we have 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 or formats where we have a proven means of monetization. For example, we have taken action to redirect users who send messages from within the Facebook application 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 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 and other issues, which may adversely affect our reputation and brands. We also may fail 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 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. 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, and hacking and phishing attacks by third parties have become more prevalent in our industry, have occurred on our systems in the past, and may 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 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 factors. In addition, third parties may attempt to fraudulently induce employees or users to disclose information in order to gain access to our data or our users' data. Although we have developed systems and processes that are designed to protect our data and user data and to prevent data loss and other 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, 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, or other factors;
- the frequency, prominence, size, format, and quality of ads shown to users;
- 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;
- the development and introduction of new products or services by us or our competitors;
- 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 and components 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 a number of factors, including the financial results of our international subsidiaries and the timing, size, and integration of acquisitions we may make from time to time;
- 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. For example, the growth rate of our revenue declined from 58% from 2013 to 2014, to 44% from 2014 to 2015. 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 of content they consume and the data they share with us, for example with respect to video, as we develop and implement new products, and as we continue to hire additional employees to support our expanding operations. We expect to continue to invest in our global connectivity efforts, which may not have a clear path 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, 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 and data protection, 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 or expansion of our activities in certain jurisdictions may subject us to additional laws and regulations. In addition, foreign data protection, privacy, and other laws and regulations can 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. The European Union and United States recently 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 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 model contracts, have been subjected to regulatory or judicial scrutiny. If Facebook is unable to transfer 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 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, including a data protection regulation, known as the General Data Protection Regulation (GDPR), which is due to become law 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 existing and proposed laws and regulations, as well as any associated inquiries, investigations, or actions, can be costly to comply with and can delay or impede the development of new products, result in negative publicity, increase our operating costs, require significant management time and attention, and subject us to 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 consumer and data protection, as we continue to grow and expand our operations. For example, several data protection authorities in Europe have initiated actions 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. 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 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 letters from patent holders alleging that certain of our products and services infringe their patent 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, intellectual property rights, rights of publicity and privacy, and personal injury torts. This risk is enhanced in certain jurisdictions outside the United States where our protection from liability for third-party actions may be unclear and where we may be less protected under local laws than we are in the United States. We could incur significant costs investigating and defending such claims and, if we are found liable, significant damages. If any of these events occur, our business and financial results could be adversely affected.

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 are making 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, 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 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 may now or 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 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. For example, social games on Facebook rely on Adobe Flash, which games are currently responsible for substantially all of our Payments revenue. In July 2015, certain vulnerabilities discovered in Flash led to temporary interruption of support for Flash by popular web browsers. If similar interruptions occur in the future and disrupt our ability to provide social games to some or all of our users, our ability to generate Payments revenue would be harmed. 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.

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

The numbers for our key metrics, which include our DAUs, mobile DAUs, MAUs, mobile MAUs, and average revenue per user (ARPU), as well as certain other metrics such as mobile-only DAUs and mobile-only MAUs, 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.

For example, there may be individuals who maintain one or more Facebook accounts in violation of our terms of service. We estimate, for example, that "duplicate" accounts (an account that a user maintains in addition to his or her principal account) may have represented less than 5% of our worldwide MAUs in 2015. 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 2015, for example, we estimate that such user-misclassified and undesirable accounts may have represented less than 2% 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. As such, our estimation of duplicate or false accounts may not accurately represent the actual number of such accounts. We are continually seeking to improve our ability to identify duplicate or false accounts and estimate the total number of such accounts, and such estimates may change due to improvements or changes in our methodology.

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.

Some of our metrics have also been affected by applications on certain mobile devices that automatically contact our servers for regular updates with no user action involved, and this activity can cause our system to count the user associated with such a device as an active user on the day such contact occurs. The impact of this automatic activity on our metrics varied by geography because mobile usage varies in different regions of the world. In addition, our data regarding the geographic location of our users is estimated based on a number of factors, such as the user's IP address and self-disclosed location. These factors may not always accurately reflect the user's actual location. For example, a mobile-only user may appear to be accessing Facebook from the location of the proxy server that the user connects to rather than from the user's actual location. 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. For example, some third parties are not able to accurately measure mobile users or do not count mobile users for certain user groups or at all in their analyses.

If marketers, developers, or investors do not perceive our user metrics to be accurate representations of our user base, or if we discover material inaccuracies in our user metrics, our reputation may be harmed and 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 14,495 as of June 30, 2016 from 10,955 as of June 30, 2015, and we expect headcount growth to continue for the foreseeable future. The growth and expansion of our business and products create significant challenges for our management, operational, and financial resources, including managing multiple relations with users, marketers, developers, and other third parties. In the event of continued growth of our operations or in the number of our third-party relationships, our information technology systems or our internal controls and procedures may not be adequate to support our operations. In addition, some members of our management do not have significant experience managing a large global business operation, so our management may not be able to manage such growth effectively. To effectively manage our growth, we must continue to improve our operational, financial, and management processes and systems and to effectively expand, train, and manage our employee base. As our organization continues to grow, and we are required to implement more complex organizational management structures, we may find it increasingly difficult to maintain the benefits of our corporate culture, including our ability to quickly develop and launch new and innovative products. This could negatively affect our business performance.

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

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

As we continue to grow, we cannot guarantee we will continue to attract the personnel we need to maintain our competitive position. In particular, we intend to 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, 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 are applying for certain regulatory licenses in Europe, 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 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 90 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 the legal and regulatory environment 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 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 law 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 conflict minerals rule requires disclosure by public companies of 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. We may incur significant costs associated with complying with 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, 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 require additional capital to support our business growth, and this capital may not be available on acceptable terms, if at all.

We may require additional capital to support our business growth or to respond to business opportunities, challenges or unforeseen circumstances. Our ability to obtain additional capital, if and when required, will depend on our business plans, investor demand, our operating performance, the condition of the capital markets, and other factors. If we raise additional funds through the issuance of equity, equity-linked or debt securities, those securities may have rights, preferences, or privileges senior to the rights of our Class A common stock, and our existing stockholders may experience dilution. If we are unable to obtain additional capital when required, or are unable to obtain additional capital on satisfactory terms, our ability to continue to support our business growth or to respond to business opportunities, challenges, or unforeseen circumstances could be adversely affected, and our business may be harmed.

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 will contest 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 has 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. 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.

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 \$121.08 through June 30, 2016. 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, including shares sold by our employees to cover tax liabilities in connection with RSU vesting events, 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; and

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

In addition, we recently 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 if the trading price of our Class A common stock 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, we intend to amend our corporate governance guidelines to provide that we will not avail ourselves of the "controlled company" exemption with respect to the independence of the members of our compensation & governance committee. However, 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 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

Period	Total Number of Shares Purchased ⁽¹⁾	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1 – April 30, 2016	—	\$ —	—	—
May 1 – May 31, 2016	—	\$ —	—	—
June 1 – June 30, 2016	111,673	\$ 0.32	—	—

(1) Unvested shares are subject to a right of repurchase by us in the event the recipient of such unvested acquisition shares is no longer employed by us. All shares in the above table were shares repurchased as a result of us exercising this right and not pursuant to a publicly announced plan or program.

Item 6. Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.1	2012 Equity Incentive Plan, as amended and restated on June 20, 2016.					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 28th day of July 2016 .

FACEBOOK, INC.

Date: July 28, 2016

/s/ DAVID M. WEHNER

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

Date: July 28, 2016

/s/ JAS ATHWAL

Jas Athwal
Chief Accounting Officer
(Principal Accounting Officer)

FACEBOOK, INC.
2012 EQUITY INCENTIVE PLAN

(as amended and restated on June 20, 2016)

1. **PURPOSE.** The purpose of this Plan is to provide incentives to attract, retain and motivate eligible persons whose present and potential contributions are important to the success of the Company, and any Parents, Subsidiaries and Affiliates that exist now or in the future, by offering them an opportunity to participate in the Company's future performance through the grant of Awards. The Plan is hereby amended and restated effective as of the Restatement Date. Capitalized terms not defined elsewhere in the text are defined in Section 27.

2. **SHARES SUBJECT TO THE PLAN.**

2.1 **Number of Shares Available.** Subject to Sections 2.6 and 21 and any other applicable provisions hereof, the total number of Shares reserved and available for grant and issuance pursuant to this Plan as of the date of adoption of the Plan by the Board, is 25,000,000 Shares, plus (i) any reserved shares not issued or subject to outstanding grants under the Company's 2005 Stock Plan (the "**Prior Plan**") on the Effective Date, (ii) shares that are subject to stock options or other awards granted under the Prior Plan that cease to be subject to such stock options or other awards by forfeiture or otherwise after the Effective Date, (iii) shares issued under the Prior Plan before or after the Effective Date pursuant to the exercise of stock options that are, after the Effective Date, forfeited, (iv) shares issued under the Prior Plan that are repurchased by the Company at the original issue price, and (v) shares that are subject to stock options or other awards under the Prior Plan that are used or withheld to pay the exercise price of an option or to satisfy the tax withholding obligations related to any award. Substitute Awards may be granted under the Plan and any such grants shall not reduce the Shares authorized for grant under the Plan. For purposes of the reservation and availability for grant and issuance of Shares under the Plan (i) Shares reserved pursuant to this Section 2.1 for Awards granted before the payment of the Initial Class C Dividend shall be shares of Class A Common Stock of the Company and shall equal the number of Shares subject to outstanding Awards immediately prior to the payment of the Initial Class C Dividend (without adjustment for the payment of the Initial Class C Dividend), reduced by any Shares of Class A Common Stock of the Company that become available for grant and issuance as Class C Capital Stock of the Company pursuant to Section 2.2 of the Plan on or following the date of payment of the Initial Class C Dividend and (ii) all other Shares reserved pursuant to this Section 2.1 on or following the date of payment of the Initial Class C Dividend shall be shares of Class C Capital Stock.

2.2 **Lapsed, Returned Awards.** Shares subject to Awards, and Shares issued under the Plan under any Award, will again be available for grant and issuance in connection with subsequent Awards of Common Stock under this Plan to the extent such Shares: (a) are subject to issuance upon exercise of an Option or SAR granted under this Plan but which cease to be subject to the Option or SAR for any reason other than exercise of the Option or SAR; (b) are subject to Awards granted under this Plan that are forfeited or are repurchased by the Company at the original issue price; (c) are subject to Awards granted under this Plan that otherwise terminate without such Shares being issued; or (d) are surrendered pursuant to an Exchange Program. On or following the payment of the Initial Class C Dividend, any such Shares that again become available for grant and issuance shall be shares of Class C Capital Stock of the Company. To the extent an Award under the Plan is paid out in cash rather than Shares, such cash payment will not result in reducing the number of Shares available for issuance under the Plan. Shares used or withheld to pay the exercise price of an Award or to satisfy the tax withholding obligations related to an Award will become available for future grant or sale under the Plan.

2.3 **Minimum Share Reserve.** At all times the Company shall reserve and keep available a sufficient number of Shares as shall be required to satisfy the requirements of all outstanding Awards granted under this Plan.

2.4 **Automatic Share Reserve Increase.** The number of Shares available for grant and issuance under the Plan shall be increased on January 1, of each of the ten (10) calendar years during the term of the Plan following the date the amended and restated Plan is approved by the Board, by the lesser of (i) two and one half percent (2.5%) of the sum of the number of shares of Class A Common Stock of the Company and the number of shares of Class C Capital Stock of the Company issued and outstanding on each December 31 immediately prior to the date of increase or (ii) such number of shares determined by the Board.

2.5 **Limitations.** No more than 120,000,000 Shares shall be issued pursuant to the exercise of ISOs.

2.6 Adjustment of Shares. If the number of outstanding Shares is changed by a stock dividend, recapitalization, stock split, reverse stock split, subdivision, combination, reclassification or similar change in the capital structure of the Company, without consideration, then (a) the number of Shares reserved for issuance and future grant under the Plan set forth in Section 2.1, (b) the Exercise Prices of and number of Shares subject to outstanding Options and SARs, (c) the number of Shares subject to other outstanding Awards, (d) the maximum number of shares that may be issued as ISOs set forth in Section 2.5, (e) the maximum number of Shares that may be issued to an individual or to a new Employee in any one calendar year set forth in Section 3 and (f) the number of Shares that are granted as Awards to Non-Employee Directors as set forth in Section 12, shall be proportionately adjusted, subject to any required action by the Board or the stockholders of the Company and in compliance with applicable securities laws; provided that fractions of a Share will not be issued.

3. ELIGIBILITY. ISOs may be granted only to Employees. All other Awards may be granted to Employees, Consultants and Non-Employee Directors; provided such Consultants and Non-Employee Directors render bona fide services not in connection with the offer and sale of securities in a capital-raising transaction. No Participant will be eligible to receive more than 2,500,000 Shares in any calendar year under this Plan pursuant to the grant of Awards except that new Employees of the Company or of a Parent, Subsidiary or Affiliate (including new Employees who are also officers and directors of the Company or any Parent, Subsidiary or Affiliate) are eligible to receive up to a maximum of 5,000,000 Shares in the calendar year in which they commence their employment.

4. ADMINISTRATION.

4.1. Committee Composition: Authority. This Plan will be administered by the Committee or by the Board acting as the Committee. Subject to the general purposes, terms and conditions of this Plan, and to the direction of the Board, the Committee will have full power to implement and carry out this Plan, except, however, the Board shall establish the terms for the grant of an Award to Non-Employee Directors. The Committee will have the authority to:

- (a) construe and interpret this Plan, any Award Agreement and any other agreement or document executed pursuant to this Plan;
 - (b) prescribe, amend and rescind rules and regulations relating to this Plan or any Award;
 - (c) select persons to receive Awards;
 - (d) determine the form and terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Awards may vest and be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Award or the Shares relating thereto, based in each case on such factors as the Committee will determine;
 - (e) determine the number of Shares or other consideration subject to Awards;
 - (f) determine the Fair Market Value in good faith and interpret the applicable provisions of this Plan and the definition of Fair Market Value in connection with circumstances that impact the Fair Market Value, if necessary;
 - (g) determine the date of termination of a Participant's employment or services;
 - (h) determine whether Awards will be granted singly, in combination with, in tandem with, in replacement of, or as alternatives to, other Awards under this Plan or any other incentive or compensation plan of the Company or any Parent, Subsidiary or Affiliate;
 - (i) grant waivers of Plan or Award conditions;
 - (j) determine the vesting, exercisability and payment of Awards;
 - (k) correct any defect, supply any omission or reconcile any inconsistency in this Plan, any Award or any Award Agreement;
 - (l) determine whether an Award has been earned;
 - (m) determine the terms and conditions of any, and to institute any Exchange Program;
-

- (n) reduce or waive any criteria with respect to Performance Factors;
- (o) adjust Performance Factors to take into account changes in law and accounting or tax rules as the Committee deems necessary or appropriate to reflect the impact of extraordinary or unusual items, events or circumstances to avoid windfalls or hardships provided that such adjustments are consistent with the regulations promulgated under Section 162(m) of the Code with respect to persons whose compensation is subject to Section 162(m) of the Code;
- (p) adopt rules and/or procedures (including the adoption of any subplan under this Plan) relating to the operation and administration of the Plan to accommodate requirements of local law and procedures outside of the United States;
- (q) make all other determinations necessary or advisable for the administration of this Plan; and
- (r) delegate any of the foregoing to a subcommittee consisting of one or more executive officers pursuant to a specific delegation.

4.2. Committee Interpretation and Discretion. Any determination made by the Committee with respect to any Award shall be made in its sole discretion at the time of grant of the Award or, unless in contravention of any express term of the Plan or Award, at any later time, and such determination shall be final and binding on the Company and all persons having an interest in any Award under the Plan. Any dispute regarding the interpretation of the Plan or any Award Agreement shall be submitted by the Participant or Company to the Committee for review. The resolution of such a dispute by the Committee shall be final and binding on the Company and the Participant. The Committee may delegate to one or more executive officers the authority to review and resolve disputes with respect to Awards held by Participants who are not Insiders, and such resolution shall be final and binding on the Company and the Participant.

4.3. Section 162(m) of the Code and Section 16 of the Exchange Act. When necessary or desirable for an Award to qualify as “performance-based compensation” under Section 162(m) of the Code the Committee shall include at least two persons who are “outside directors” (as defined under Section 162(m) of the Code) and at least two (or a majority if more than two then serve on the Committee) such “outside directors” shall approve the grant of such Award and timely determine (as applicable) the Performance Period and any Performance Factors upon which vesting or settlement of any portion of such Award is to be subject. When required by Section 162(m) of the Code, prior to settlement of any such Award at least two (or a majority if more than two then serve on the Committee) such “outside directors” then serving on the Committee shall determine and certify in writing the extent to which such Performance Factors have been timely achieved and the extent to which the Shares subject to such Award have thereby been earned. Awards granted to Participants who are subject to Section 16 of the Exchange Act must be approved by two or more “non-employee directors” (as defined in the regulations promulgated under Section 16 of the Exchange Act). With respect to Participants whose compensation is subject to Section 162(m) of the Code, and provided that such adjustments are consistent with the regulations promulgated under Section 162(m) of the Code, the Committee may adjust the performance goals to account for changes in law and accounting and to make such adjustments as the Committee deems necessary or appropriate to reflect the impact of extraordinary or unusual items, events or circumstances to avoid windfalls or hardships, including without limitation (i) restructurings, discontinued operations, other extraordinary items, and other unusual or non-recurring charges, (ii) an event either not directly related to the operations of the Company or not within the reasonable control of the Company’s management, or (iii) a change in accounting standards required by generally accepted accounting principles.

4.4. Documentation. The Award Agreement for a given Award, the Plan and any other documents may be delivered to, and accepted by, a Participant or any other person in any manner (including electronic distribution or posting) that meets applicable legal requirements.

4.5. Foreign Award Recipients. Notwithstanding any provision of the Plan to the contrary, in order to comply with the laws in other countries in which the Company and its Subsidiaries or Affiliates operate or have employees or other individuals eligible for Awards or to facilitate the offering and administration of the Plan in such other countries, the Committee, in its sole discretion, shall have the power and authority to: (i) determine which Subsidiaries and Affiliates shall be covered by the Plan; (ii) determine which individuals outside the United States are eligible to participate in the Plan; (iii) modify the terms and conditions of any Award granted to or held by individuals outside the United States to comply with applicable foreign laws or facilitate the offering and administration of the Plan in view of such foreign laws; (iv) establish subplans and modify exercise procedures and other terms and procedures, to the extent the Committee determines such actions to be necessary or advisable; provided, however, that no such subplans and/or modifications shall increase the share limitations contained in Section 2 hereof; and (v) take any action, before or after an Award is made, that the Committee determines to be necessary or advisable to obtain approval or comply or facilitate compliance with any local governmental regulatory exemptions or approvals. Notwithstanding

the foregoing, the Committee may not take any actions hereunder, and no Awards shall be granted, that would violate the Exchange Act or any other applicable United States securities law, the Code, or any other applicable United States governing statute or law.

5. **OPTIONS.** The Committee may grant Options to eligible Employees, Consultants, and Non-Employee Directors and will determine whether such Options will be Incentive Stock Options within the meaning of the Code (“*ISOs*”) or Nonqualified Stock Options (“*NQSOs*”), the number of Shares subject to the Option, the Exercise Price of the Option, the period during which the Option may vest and be exercised, and all other terms and conditions of the Option, subject to the following:

5.1. **Option Grant.** Each Option granted under this Plan will identify the Option as an ISO or an NQSO. An Option may be, but need not be, awarded upon satisfaction of such Performance Factors during any Performance Period as are set out in advance in the Participant’s individual Award Agreement. If the Option is being earned upon the satisfaction of Performance Factors, then the Committee will: (x) determine the nature, length and starting date of any Performance Period for each Option; and (y) select from among the Performance Factors to be used to measure the performance, if any. Performance Periods may overlap and Participants may participate simultaneously with respect to Options that are subject to different performance goals and other criteria.

5.2. **Date of Grant.** The date of grant of an Option will be the date on which the Committee makes the determination to grant such Option, or a specified future date. The Award Agreement and a copy of this Plan will be delivered to the Participant within a reasonable time after the granting of the Option.

5.3. **Exercise Period.** Options may be vested and exercisable within the times or upon the conditions as set forth in the Award Agreement governing such Option; provided, however, that no Option will be exercisable after the expiration of ten (10) years from the date the Option is granted; and provided further that no ISO granted to a person who, at the time the ISO is granted, directly or by attribution owns more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of any Parent, Subsidiary or Affiliate (“*Ten Percent Stockholder*”) will be exercisable after the expiration of five (5) years from the date the ISO is granted. The Committee also may provide for Options to become exercisable at one time or from time to time, periodically or otherwise, in such number of Shares or percentage of Shares as the Committee determines.

5.4. **Exercise Price.** The Exercise Price of an Option will be determined by the Committee when the Option is granted; provided that: (i) the Exercise Price of an Option will be not less than one hundred percent (100%) of the Fair Market Value of the Shares on the date of grant and (ii) the Exercise Price of any ISO granted to a Ten Percent Stockholder will not be less than one hundred ten percent (110%) of the Fair Market Value of the Shares on the date of grant. Payment for the Shares purchased may be made in accordance with Section 11 and the Award Agreement and in accordance with any procedures established by the Company.

5.5. **Method of Exercise.** Any Option granted hereunder will be vested and exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Committee and set forth in the Award Agreement. An Option may not be exercised for a fraction of a Share. An Option will be deemed exercised when the Company receives: (i) notice of exercise (in such form as the Committee may specify from time to time) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised (together with applicable withholding taxes). Full payment may consist of any consideration and method of payment authorized by the Committee and permitted by the Award Agreement and the Plan. Shares issued upon exercise of an Option will be issued in the name of the Participant. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder will exist with respect to the Shares, notwithstanding the exercise of the Option. The Company will issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 2.6 of the Plan. Exercising an Option in any manner will decrease the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

5.6. **Termination.** The exercise of an Option will be subject to the following (except as may be otherwise provided in an Award Agreement):

(a) If the Participant is Terminated for any reason except for Cause or the Participant’s death or Disability, then the Participant may exercise such Participant’s Options only to the extent that such Options would have been exercisable by the Participant on the Termination Date no later than ninety (90) days after the Termination Date (or such shorter time period or longer time period not exceeding five (5) years as may be determined by the Committee, with any exercise beyond

three (3) months after the Termination Date deemed to be the exercise of an NQSO), but in any event no later than the expiration date of the Options.

(b) If the Participant is Terminated because of the Participant's death (or the Participant dies within ninety (90) days after a Termination other than for Cause or because of the Participant's Disability), then the Participant's Options may be exercised only to the extent that such Options would have been exercisable by the Participant on the Termination Date and must be exercised by the Participant's legal representative, or authorized assignee, no later than twelve (12) months after the Termination Date (or such shorter time period not less than six (6) months or longer time period not exceeding five (5) years as may be determined by the Committee), but in any event no later than the expiration date of the Options.

(c) If the Participant is Terminated because of the Participant's Disability, then the Participant's Options may be exercised only to the extent that such Options would have been exercisable by the Participant on the Termination Date and must be exercised by the Participant (or the Participant's legal representative or authorized assignee) no later than six (6) months after the Termination Date (with any exercise beyond (a) three (3) months after the Termination Date when the Termination is for a Disability that is not a "permanent and total disability" as defined in Section 22(e)(3) of the Code, or (b) twelve (12) months after the Termination Date when the Termination is for a Disability that is a "permanent and total disability" as defined in Section 22(e)(3) of the Code, deemed to be exercise of an NQSO), but in any event no later than the expiration date of the Options.

(d) If the Participant is terminated for Cause, then Participant's Options shall expire on such Participant's Termination Date, or at such later time and on such conditions as are determined by the Committee, but in any no event later than the expiration date of the Options. Unless otherwise provided in the Award Agreement, Cause will have the meaning set forth in the Plan.

5.7. Limitations on Exercise. The Committee may specify a minimum number of Shares that may be purchased on any exercise of an Option, provided that such minimum number will not prevent any Participant from exercising the Option for the full number of Shares for which it is then exercisable.

5.8. Limitations on ISOs. With respect to Awards granted as ISOs, to the extent that the aggregate Fair Market Value of the Shares with respect to which such ISOs are exercisable for the first time by the Participant during any calendar year (under all plans of the Company and any Parent, Subsidiary or Affiliate) exceeds one hundred thousand dollars (\$100,000), such Options will be treated as NQSOs. For purposes of this Section 5.8, ISOs will be taken into account in the order in which they were granted. The Fair Market Value of the Shares will be determined as of the time the Option with respect to such Shares is granted. In the event that the Code or the regulations promulgated thereunder are amended after the Effective Date to provide for a different limit on the Fair Market Value of Shares permitted to be subject to ISOs, such different limit will be automatically incorporated herein and will apply to any Options granted after the effective date of such amendment.

5.9. Modification, Extension or Renewal. The Committee may modify, extend or renew outstanding Options and authorize the grant of new Options in substitution therefor, provided that any such action may not, without the written consent of a Participant, impair any of such Participant's rights under any Option previously granted. Any outstanding ISO that is modified, extended, renewed or otherwise altered will be treated in accordance with Section 424(h) of the Code. Subject to Section 18 of this Plan, by written notice to affected Participants, the Committee may reduce the Exercise Price of outstanding Options without the consent of such Participants; provided, however, that the Exercise Price may not be reduced below the Fair Market Value on the date the action is taken to reduce the Exercise Price.

5.10. No Disqualification. Notwithstanding any other provision in this Plan, no term of this Plan relating to ISOs will be interpreted, amended or altered, nor will any discretion or authority granted under this Plan be exercised, so as to disqualify this Plan under Section 422 of the Code or, without the consent of the Participant affected, to disqualify any ISO under Section 422 of the Code.

6. RESTRICTED STOCK AWARDS.

6.1. Awards of Restricted Stock. A Restricted Stock Award is an offer by the Company to sell to an eligible Employee, Consultant, or Non-Employee Director a number of Shares that are subject to restrictions (" *Restricted Stock* "). The Committee will determine to whom an offer will be made, the number of Shares the Participant may purchase, the Purchase Price, the restrictions under which the Shares will be subject and all other terms and conditions of the Restricted Stock Award, subject to the Plan.

6.2. Restricted Stock Purchase Agreement. All purchases under a Restricted Stock Award will be evidenced by an Award Agreement. Except as may otherwise be provided in an Award Agreement, a Participant accepts a Restricted Stock Award by signing and delivering to the Company an Award Agreement with full payment of the Purchase Price, within thirty (30) days from the date the Award Agreement was delivered to the Participant. If the Participant does not accept such Award within thirty (30) days, then the offer of such Restricted Stock Award will terminate, unless the Committee determines otherwise.

6.3. Purchase Price. The Purchase Price for a Restricted Stock Award will be determined by the Committee and may be less than Fair Market Value on the date the Restricted Stock Award is granted. Payment of the Purchase Price must be made in accordance with Section 11 of the Plan, and the Award Agreement and in accordance with any procedures established by the Company.

6.4. Terms of Restricted Stock Awards. Restricted Stock Awards will be subject to such restrictions as the Committee may impose or are required by law. These restrictions may be based on completion of a specified number of years of service with the Company or any Parent, Subsidiary or Affiliate or upon completion of Performance Factors, if any, during any Performance Period as set out in advance in the Participant's Award Agreement. Prior to the grant of a Restricted Stock Award, the Committee shall: (a) determine the nature, length and starting date of any Performance Period for the Restricted Stock Award; (b) select from among the Performance Factors to be used to measure performance goals, if any; and (c) determine the number of Shares that may be awarded to the Participant. Performance Periods may overlap and a Participant may participate simultaneously with respect to Restricted Stock Awards that are subject to different Performance Periods and having different performance goals and other criteria.

6.5. Termination. Except as may be set forth in the Participant's Award Agreement, vesting ceases on such Participant's Termination Date (unless determined otherwise by the Committee).

7. STOCK BONUS AWARDS.

7.1. Awards of Stock Bonuses. A Stock Bonus Award is an award to an eligible Employee, Consultant, or Non-Employee Director of Shares for services to be rendered or for past services already rendered to the Company or any Parent, Subsidiary or Affiliate. All Stock Bonus Awards shall be made pursuant to an Award Agreement. No payment from the Participant will be required for Shares awarded pursuant to a Stock Bonus Award.

7.2. Terms of Stock Bonus Awards. The Committee will determine the number of Shares to be awarded to the Participant under a Stock Bonus Award and any restrictions thereon. These restrictions may be based upon completion of a specified number of years of service with the Company or upon satisfaction of performance goals based on Performance Factors during any Performance Period as set out in advance in the Participant's Stock Bonus Agreement. Prior to the grant of any Stock Bonus Award the Committee shall: (a) determine the nature, length and starting date of any Performance Period for the Stock Bonus Award; (b) select from among the Performance Factors to be used to measure performance goals; and (c) determine the number of Shares that may be awarded to the Participant. Performance Periods may overlap and a Participant may participate simultaneously with respect to Stock Bonus Awards that are subject to different Performance Periods and different performance goals and other criteria.

7.3. Form of Payment to Participant. Payment may be made in the form of cash, whole Shares, or a combination thereof, based on the Fair Market Value of the Shares earned under a Stock Bonus Award on the date of payment, as determined in the sole discretion of the Committee.

7.4. Termination. Except as may be set forth in the Participant's Award Agreement, vesting ceases on such Participant's Termination Date (unless determined otherwise by the Committee).

8. STOCK APPRECIATION RIGHTS.

8.1. Awards of SARs. A Stock Appreciation Right ("SAR") is an award to an eligible Employee, Consultant, or Non-Employee Director that may be settled in cash or Shares (which may consist of Restricted Stock), having a value equal to (a) the difference between the Fair Market Value on the date of exercise over the Exercise Price multiplied by (b) the number of Shares with respect to which the SAR is being settled (subject to any maximum number of Shares that may be issuable as specified in an Award Agreement). All SARs shall be made pursuant to an Award Agreement.

8.2. Terms of SARs. The Committee will determine the terms of each SAR including, without limitation: (a) the number of Shares subject to the SAR; (b) the Exercise Price and the time or times during which the SAR may be settled; (c) the consideration to be distributed on settlement of the SAR; and (d) the effect of the Participant's Termination on each SAR.

The Exercise Price of the SAR will be determined by the Committee when the SAR is granted, and may not be less than Fair Market Value. A SAR may be awarded upon satisfaction of Performance Factors, if any, during any Performance Period as are set out in advance in the Participant's individual Award Agreement. If the SAR is being earned upon the satisfaction of Performance Factors, then the Committee will: (x) determine the nature, length and starting date of any Performance Period for each SAR; and (y) select from among the Performance Factors to be used to measure the performance, if any. Performance Periods may overlap and Participants may participate simultaneously with respect to SARs that are subject to different Performance Factors and other criteria.

8.3. Exercise Period and Expiration Date. A SAR will be exercisable within the times or upon the occurrence of events determined by the Committee and set forth in the Award Agreement governing such SAR. The SAR Agreement shall set forth the expiration date; provided that no SAR will be exercisable after the expiration of ten (10) years from the date the SAR is granted. The Committee may also provide for SARs to become exercisable at one time or from time to time, periodically or otherwise (including, without limitation, upon the attainment during a Performance Period of performance goals based on Performance Factors), in such number of Shares or percentage of the Shares subject to the SAR as the Committee determines. Except as may be set forth in the Participant's Award Agreement, vesting ceases on such Participant's Termination Date (unless determined otherwise by the Committee). Notwithstanding the foregoing, the rules of Section 5.6 also will apply to SARs.

8.4. Form of Settlement. Upon exercise of a SAR, a Participant will be entitled to receive payment from the Company in an amount determined by multiplying (i) the difference between the Fair Market Value of a Share on the date of exercise over the Exercise Price; times (ii) the number of Shares with respect to which the SAR is exercised. At the discretion of the Committee, the payment from the Company for the SAR exercise may be in cash, in Shares of equivalent value, or in some combination thereof. The portion of a SAR being settled may be paid currently or on a deferred basis with such interest or dividend equivalent, if any, as the Committee determines, provided that the terms of the SAR and any deferral satisfy the requirements of Section 409A of the Code.

8.5. Termination. Except as may be set forth in the Participant's Award Agreement, vesting ceases on such Participant's Termination Date (unless determined otherwise by the Committee).

9. RESTRICTED STOCK UNITS

9.1. Awards of Restricted Stock Units. A Restricted Stock Unit ("RSU") is an award to an eligible Employee, Consultant, or Non-Employee Director covering a number of Shares that may be settled in cash, or by issuance of those Shares (which may consist of Restricted Stock). All RSUs shall be made pursuant to an Award Agreement.

9.2. Terms of RSUs. The Committee will determine the terms of an RSU including, without limitation: (a) the number of Shares subject to the RSU; (b) the time or times during which the RSU may be settled; (c) the consideration to be distributed on settlement; and (d) the effect of the Participant's Termination on each RSU. An RSU may be awarded upon satisfaction of such performance goals based on Performance Factors during any Performance Period as are set out in advance in the Participant's Award Agreement. If the RSU is being earned upon satisfaction of Performance Factors, then the Committee will: (x) determine the nature, length and starting date of any Performance Period for the RSU; (y) select from among the Performance Factors to be used to measure the performance, if any; and (z) determine the number of Shares deemed subject to the RSU. Performance Periods may overlap and participants may participate simultaneously with respect to RSUs that are subject to different Performance Periods and different performance goals and other criteria.

9.3. Form and Timing of Settlement. Payment of earned RSUs shall be made as soon as practicable after the date(s) determined by the Committee and set forth in the Award Agreement. The Committee, in its sole discretion, may settle earned RSUs in cash, Shares, or a combination of both. The Committee may also permit a Participant to defer payment under a RSU to a date or dates after the RSU is earned provided that the terms of the RSU and any deferral satisfy the requirements of Section 409A of the Code.

9.4. Termination. Except as may be set forth in the Participant's Award Agreement, vesting ceases on such Participant's Termination Date (unless determined otherwise by the Committee).

10. PERFORMANCE AWARDS

10.1. Performance Awards. A Performance Award is an award to an eligible Employee, Consultant, or Non-Employee Director a cash bonus or a Performance Share bonus. Grants of Performance Awards shall be made pursuant to an Award Agreement.

10.2. Terms of Performance Awards. The Committee will determine, and each Award Agreement shall set forth, the terms of each award of Performance Award including, without limitation: (a) the amount of any cash bonus; (b) the number of Shares deemed subject to a Performance Share bonus; (c) the Performance Factors and Performance Period that shall determine the time and extent to which each Performance Award shall be settled; (d) the consideration to be distributed on settlement; and (e) the effect of the Participant's Termination on each Performance Award. In establishing Performance Factors and the Performance Period the Committee will: (x) determine the nature, length and starting date of any Performance Period; and (y) select from among the Performance Factors to be used. Prior to settlement the Committee shall determine the extent to which Performance Awards have been earned. Performance Periods may overlap and Participants may participate simultaneously with respect to Performance Awards that are subject to different Performance Periods and different performance goals and other criteria. No Participant will be eligible to receive more than \$10,000,000 in Performance Awards in any calendar year under this Plan.

10.3. Value, Earning and Timing of Performance Shares. Any Performance Share bonus will have an initial value equal to the Fair Market Value of a Share on the date of grant. After the applicable Performance Period has ended, the holder of a Performance Share bonus will be entitled to receive a payout of the number of Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding Performance Factors or other vesting provisions have been achieved. The Committee, in its sole discretion, may pay an earned Performance Share bonus in the form of cash, in Shares (which have an aggregate Fair Market Value equal to the value of the earned Performance Shares at the close of the applicable Performance Period) or in a combination thereof. Performance Share bonuses may also be settled in Restricted Stock.

10.4. Termination. Except as may be set forth in the Participant's Award Agreement, vesting ceases on such Participant's Termination Date (unless determined otherwise by the Committee).

11. PAYMENT FOR SHARE PURCHASES.

Payment from a Participant for Shares purchased pursuant to this Plan may be made in cash or by check or, where expressly approved for the Participant by the Committee and where permitted by law (and to the extent not otherwise set forth in the applicable Award Agreement):

- (a) by cancellation of indebtedness of the Company to the Participant;
- (b) by surrender of shares of the Company held by the Participant that have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Award will be exercised or settled;
- (c) by waiver of compensation due or accrued to the Participant for services rendered or to be rendered to the Company or a Parent, Subsidiary or Affiliate;
- (d) by consideration received by the Company pursuant to a broker-assisted or other form of cashless exercise program implemented by the Company in connection with the Plan;
- (e) by any combination of the foregoing; or
- (f) by any other method of payment as is permitted by applicable law.

12. GRANTS TO NON-EMPLOYEE DIRECTORS.

12.1. Types of Awards. Non-Employee Directors are eligible to receive any type of Award offered under this Plan except ISOs. Awards pursuant to this Section 12 may be automatically made pursuant to policy adopted by the Board, or made from time to time as determined in the discretion of the Board.

12.2. Eligibility. Awards pursuant to this Section 12 shall be granted only to Non-Employee Directors. A Non-Employee Director who is elected or re-elected as a member of the Board will be eligible to receive an Award under this Section 12.

12.3. Vesting, Exercisability and Settlement. Except as set forth in Section 21, Awards shall vest, become exercisable and be settled as determined by the Board. With respect to Options and SARs, the exercise price granted to Non-Employee Directors shall not be less than the Fair Market Value of the Shares at the time that such Option or SAR is granted.

12.4 Election to receive Awards in Lieu of Cash. A Non-Employee Director may elect to receive his or her annual retainer payments and/or meeting fees from the Company in the form of cash or Awards or a combination thereof, as determined by the Committee. Such Awards shall be issued under the Plan. An election under this Section 12.4 shall be filed with the Company on the form prescribed by the Company.

13. WITHHOLDING TAXES.

13.1. Withholding Generally. Whenever Shares are to be issued in satisfaction of Awards granted under this Plan, the Company may require the Participant to remit to the Company, or to the Parent, Subsidiary or Affiliate employing the Participant, an amount sufficient to satisfy applicable U.S. federal, state, local and international withholding tax requirements or any other tax liability legally due from the Participant prior to the delivery of Shares pursuant to exercise or settlement of any Award. Whenever payments in satisfaction of Awards granted under this Plan are to be made in cash, such payment will be net of an amount sufficient to satisfy applicable U.S. federal, state, local and international withholding tax requirements or any other tax liability legally due from the Participant. The Fair Market Value of the Shares will be determined as of the date that the taxes are required to be withheld as required by applicable tax rules or as of a date determined by the Committee in its discretion, where permitted by applicable law.

13.2. Stock Withholding. The Committee, in its sole discretion and pursuant to such procedures as it may specify from time to time and to limitations of local law, may require or permit a Participant to satisfy such tax withholding obligation or any other tax liability legally due from the Participant, in whole or in part by (without limitation) (i) paying cash, (ii) electing to have the Company withhold otherwise deliverable cash or Shares having a Fair Market Value up to the maximum statutory amount required to be withheld unless a lesser amount of withholding is required to avoid adverse accounting treatment, or (iii) delivering to the Company already-owned Shares having a Fair Market Value up to the maximum amount required to be withheld unless a lesser amount of withholding is required to avoid adverse accounting treatment.

14. TRANSFERABILITY.

14.1. Transfer Generally. Unless determined otherwise by the Committee or pursuant to Section 14.2, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution. If the Committee makes an Award transferable, including, without limitation, by instrument to an inter vivos or testamentary trust in which the Awards are to be passed to beneficiaries upon the death of the trustor (settlor) or by gift to a Permitted Transferee, such Award will contain such additional terms and conditions as the Committee deems appropriate. All Awards shall be exercisable: (i) during the Participant's lifetime only by (A) the Participant, or (B) the Participant's guardian or legal representative; (ii) after the Participant's death, by the legal representative of the Participant's heirs or legatees; and (iii) in the case of all awards except ISOs, by a Permitted Transferee.

14.2. Award Transfer Program. Notwithstanding any contrary provision of the Plan, the Committee shall have all discretion and authority to determine and implement the terms and conditions of any Award Transfer Program instituted pursuant to this Section 14.2 and shall have the authority to amend the terms of any Award participating, or otherwise eligible to participate in, the Award Transfer Program, including (but not limited to) the authority to (i) amend (including to extend) the expiration date, post-termination exercise period and/or forfeiture conditions of any such Award, (ii) amend or remove any provisions of the Award relating to the Award holder's continued service to the Company or its Parent, Subsidiary or Affiliate, (iii) amend the permissible payment methods with respect to the exercise or purchase of any such Award, (iv) amend the adjustments to be implemented in the event of changes in the capitalization and other similar events with respect to such Award, and (v) make such other changes to the terms of such Award as the Committee deems necessary or appropriate in its sole discretion.

15. PRIVILEGES OF STOCK OWNERSHIP; RESTRICTIONS ON SHARES.

15.1. Voting and Dividends. No Participant will have any of the rights of a stockholder with respect to any Shares until the Shares are issued to the Participant, except for any rights permitted by an applicable Award Agreement. After Shares are issued to the Participant, the Participant will be a stockholder and have all the rights of a stockholder with respect to such Shares, including the right to vote and receive all dividends or other distributions made or paid with respect to such Shares; provided, that if such Shares are Restricted Stock, then any new, additional or different securities the Participant may become entitled to receive with respect to such Shares by virtue of a stock dividend, stock split or any other change in the corporate or capital structure of the Company will be subject to the same restrictions as the Restricted Stock; provided, further, that the Participant will have no right to retain such stock dividends or stock distributions with respect to Shares that are repurchased at the Participant's Purchase Price or Exercise Price, as the case may be, pursuant to Section 15.2.

15.2. Restrictions on Shares. At the discretion of the Committee, the Company may reserve to itself and/or its assignee(s) a right to repurchase (a “*Right of Repurchase*”) a portion of any or all Unvested Shares held by a Participant following such Participant’s Termination at any time within ninety (90) days after the later of the Participant’s Termination Date and the date the Participant purchases Shares under this Plan, for cash and/or cancellation of purchase money indebtedness, at the Participant’s Purchase Price or Exercise Price, as the case may be.

16. CERTIFICATES. All Shares or other securities whether or not certificated, delivered under this Plan will be subject to such stock transfer orders, legends and other restrictions as the Committee may deem necessary or advisable, including restrictions under any applicable U.S. federal, state or foreign securities law, or any rules, regulations and other requirements of the SEC or any stock exchange or automated quotation system upon which the Shares may be listed or quoted and any non-U.S. exchange controls or securities law restrictions to which the Shares are subject.

17. ESCROW; PLEDGE OF SHARES. To enforce any restrictions on a Participant’s Shares, the Committee may require the Participant to deposit all certificates representing Shares, together with stock powers or other instruments of transfer approved by the Committee, appropriately endorsed in blank, with the Company or an agent designated by the Company to hold in escrow until such restrictions have lapsed or terminated, and the Committee may cause a legend or legends referencing such restrictions to be placed on the certificates. Any Participant who is permitted to execute a promissory note as partial or full consideration for the purchase of Shares under this Plan will be required to pledge and deposit with the Company all or part of the Shares so purchased as collateral to secure the payment of the Participant’s obligation to the Company under the promissory note; provided, however, that the Committee may require or accept other or additional forms of collateral to secure the payment of such obligation and, in any event, the Company will have full recourse against the Participant under the promissory note notwithstanding any pledge of the Participant’s Shares or other collateral. In connection with any pledge of the Shares, the Participant will be required to execute and deliver a written pledge agreement in such form as the Committee will from time to time approve. The Shares purchased with the promissory note may be released from the pledge on a pro rata basis as the promissory note is paid.

18. REPRICING; EXCHANGE AND BUYOUT OF AWARDS. Without prior stockholder approval the Committee may (i) reprice Options or SARS (and where such repricing is a reduction in the Exercise Price of outstanding Options or SARS, the consent of the affected Participants is not required provided written notice is provided to them, notwithstanding any adverse tax consequences to them arising from the repricing), and (ii) with the consent of the respective Participants (unless not required pursuant to Section 5.9 of the Plan), pay cash or issue new Awards in exchange for the surrender and cancellation of any, or all, outstanding Awards.

19. SECURITIES LAW AND OTHER REGULATORY COMPLIANCE. An Award will not be effective unless such Award is in compliance with all applicable U.S. and foreign federal and state securities laws, rules and regulations of any governmental body, and the requirements of any stock exchange or automated quotation system upon which the Shares may then be listed or quoted, as they are in effect on the date of grant of the Award and also on the date of exercise or other issuance. Notwithstanding any other provision in this Plan, the Company will have no obligation to issue or deliver certificates for Shares under this Plan prior to: (a) obtaining any approvals from governmental agencies that the Company determines are necessary or advisable; and/or (b) completion of any registration or other qualification of such Shares under any state or federal or foreign law or ruling of any governmental body that the Company determines to be necessary or advisable. The Company will be under no obligation to register the Shares with the SEC or to effect compliance with the registration, qualification or listing requirements of any foreign or state securities laws, stock exchange or automated quotation system, and the Company will have no liability for any inability or failure to do so.

20. NO OBLIGATION TO EMPLOY. Nothing in this Plan or any Award granted under this Plan will confer or be deemed to confer on any Participant any right to continue in the employ of, or to continue any other relationship with, the Company or any Parent, Subsidiary or Affiliate or limit in any way the right of the Company or any Parent, Subsidiary or Affiliate to terminate Participant’s employment or other relationship at any time.

21. CORPORATE TRANSACTIONS.

21.1. Assumption or Replacement of Awards by Successor. In the event of a Corporate Transaction any or all outstanding Awards may be assumed or replaced by the successor corporation, which assumption or replacement shall be binding on all Participants. In the alternative, the successor corporation may substitute equivalent Awards or provide substantially similar consideration to Participants as was provided to stockholders (after taking into account the existing provisions of the Awards). The successor corporation may also issue, in place of outstanding Shares of the Company held by the Participant, substantially similar shares or other property subject to repurchase restrictions no less favorable to the Participant. In the event such successor or acquiring corporation (if any) refuses to assume, convert, replace or substitute Awards, as provided above,

pursuant to a Corporate Transaction, then notwithstanding any other provision in this Plan to the contrary, such Awards shall have their vesting accelerate as to all shares subject to such Award (and any applicable right of repurchase fully lapse) immediately prior to the Corporate Transaction unless otherwise determined by the Board and then such Awards will terminate. In addition, in the event such successor or acquiring corporation (if any) refuses to assume, convert, replace or substitute Awards, as provided above, pursuant to a Corporate Transaction, the Committee will notify the Participant in writing or electronically that such Award will be exercisable for a period of time determined by the Committee in its sole discretion, and such Award will terminate upon the expiration of such period. Awards need not be treated similarly in a Corporate Transaction.

21.2. Assumption of Awards by the Company. The Company, from time to time, also may substitute or assume outstanding awards granted by another company, whether in connection with an acquisition of such other company or otherwise, by either; (a) granting an Award under this Plan in substitution of such other company's award; or (b) assuming such award as if it had been granted under this Plan if the terms of such assumed award could be applied to an Award granted under this Plan. Such substitution or assumption will be permissible if the holder of the substituted or assumed award would have been eligible to be granted an Award under this Plan if the other company had applied the rules of this Plan to such grant. In the event the Company assumes an award granted by another company, the terms and conditions of such award will remain unchanged (except that the Purchase Price or the Exercise Price, as the case may be, and the number and nature of Shares issuable upon exercise or settlement of any such Award will be adjusted appropriately pursuant to Section 424(a) of the Code). In the event the Company elects to grant a new Option in substitution rather than assuming an existing option, such new Option may be granted with a similarly adjusted Exercise Price.

21.3. Non-Employee Directors' Awards. Notwithstanding any provision to the contrary herein, in the event of a Corporate Transaction, the vesting of all Awards granted to Non-Employee Directors shall accelerate and such Awards shall become exercisable (as applicable) in full prior to the consummation of such event at such times and on such conditions as the Committee determines.

22. ADOPTION AND STOCKHOLDER APPROVAL. This Plan shall be submitted for the approval of the Company's stockholders, consistent with applicable laws, within twelve (12) months before or after the date this Plan is adopted by the Board.

23. TERM OF PLAN/GOVERNING LAW. Unless earlier terminated as provided herein, this Plan will become effective on the Effective Date and will terminate ten (10) years from the date this amended and restated Plan is approved by the Board. This Plan and all Awards granted hereunder shall be governed by and construed in accordance with the laws of the State of Delaware.

24. AMENDMENT OR TERMINATION OF PLAN. The Board may at any time terminate or amend this Plan in any respect, including, without limitation, amendment of any form of Award Agreement or instrument to be executed pursuant to this Plan; provided, however, that the Board will not, without the approval of the stockholders of the Company, amend this Plan in any manner that requires such stockholder approval; provided further, that a Participant's Award shall be governed by the version of this Plan then in effect at the time such Award was granted.

25. NONEXCLUSIVITY OF THE PLAN. Neither the adoption of this Plan by the Board, the submission of this Plan to the stockholders of the Company for approval, nor any provision of this Plan will be construed as creating any limitations on the power of the Board to adopt such additional compensation arrangements as it may deem desirable, including, without limitation, the granting of stock awards and bonuses otherwise than under this Plan, and such arrangements may be either generally applicable or applicable only in specific cases.

26. INSIDER TRADING POLICY. Each Participant who receives an Award shall comply with any policy adopted by the Company from time to time covering transactions in the Company's securities by Employees, officers and/or Directors of the Company.

27. DEFINITIONS. As used in this Plan, and except as elsewhere defined herein, the following terms will have the following meanings:

“ *Affiliate* ” means any entity other than a Parent or Subsidiary that, directly or indirectly, is controlled by, controls or is under common control with, the Company or in which the Company has a significant equity interest, in either case as determined by the Board; provided, however, that the definition of Affiliate shall be limited to entities that are eligible issuers of service recipient stock (as defined in Treas. Reg. Section 1.409A-1(b)(5)(iii)(E), or applicable successor regulation) for Awards that would otherwise be subject to Section 409A, unless the Committee determines otherwise.

“ **Award** ” means any award granted pursuant to the provisions of the Plan, including any Option, Restricted Stock, Stock Bonus, Stock Appreciation Right, Restricted Stock Unit or award of Performance Shares.

“ **Award Agreement** ” means, with respect to each Award, the written or electronic agreement between the Company and the Participant setting forth the terms and conditions of the Award, which shall be in substantially a form (which need not be the same for each Participant) that the Committee has from time to time approved, and will comply with and be subject to the terms and conditions of this Plan.

“ **Award Transfer Program** ” means any program instituted by the Committee which would permit Participants the opportunity to transfer any outstanding Awards to a financial institution or other person or entity approved by the Committee.

“ **Board** ” means the Board of Directors of the Company.

“ **Cause** ” means (i) Participant’s willful failure substantially to perform his or her duties and responsibilities to the Company or deliberate violation of a Company policy; (ii) Participant’s commission of any act of fraud, embezzlement, dishonesty or any other willful misconduct that has caused or is reasonably expected to result in material injury to the Company; (iii) unauthorized use or disclosure by Participant of any proprietary information or trade secrets of the Company or any other party to whom the Participant owes an obligation of nondisclosure as a result of his or her relationship with the Company; or (iv) Participant’s willful breach of any of his or her obligations under any written agreement or covenant with the Company. The determination as to whether a Participant is being terminated for Cause shall be made in good faith by the Company and shall be final and binding on the Participant. The foregoing definition does not in any way limit the Company’s ability to terminate a Participant’s employment or consulting relationship at any time as provided in Section 20 above, and the term “Company” will be interpreted to include any Subsidiary or Parent, as appropriate.

“ **Code** ” means the United States Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

“ **Committee** ” means the Compensation Committee of the Board or those persons to whom administration of the Plan, or part of the Plan, has been delegated as permitted by law.

“ **Common Stock** ” means (i) with respect to Awards granted before the date of the payment of the first dividend of Class C Capital Stock to all holders of Class A Common Stock and Class B Common Stock (the “ **Initial Class C Dividend** ”), the Class A Common Stock of the Company, and (ii) with respect to Awards granted on and after the date of the payment of the Initial Class C Dividend and any Shares issued pursuant to any adjustment made in accordance with Section 2.6 upon the payment of the Class C Dividend, the Class C Capital Stock of the Company.

“ **Company** ” means Facebook, Inc., or any successor corporation.

“ **Consultant** ” means any individual, including an advisor or independent contractor, engaged by the Company or a Parent, Subsidiary or Affiliate to render services to such entity other than as an Employee or Non-Employee Director.

“ **Corporate Transaction** ” means the occurrence of any of the following events: (i) any “person” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the “beneficial owner” (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company’s then-outstanding voting securities; (ii) the consummation of the sale or disposition by the Company of all or substantially all of the Company’s assets; (iii) the consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation or (iv) any other transaction which qualifies as a “corporate transaction” under Section 424(a) of the Code wherein the stockholders of the Company give up all of their equity interest in the Company (except for the acquisition, sale or transfer of all or substantially all of the outstanding shares of the Company).

“ **Director** ” means a member of the Board.

“ **Disability** ” means in the case of incentive stock options, total and permanent disability as defined in Section 22(e)(3) of the Code and in the case of other Awards, that the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months.

“ **Effective Date** ” means the day immediately prior to the date of the underwritten initial public offering of the Company’s Common Stock pursuant to a registration statement that is declared effective by the SEC.

“ **Employee** ” means any individual, including officers and directors, employed by the Company or any Parent, Subsidiary or Affiliate. Neither service as a Director nor payment of a Director’s fee by the Company will be sufficient to constitute “employment” by the Company.

“ **Exchange Act** ” means the United States Securities Exchange Act of 1934, as amended.

“ **Exchange Program** ” means a program pursuant to which outstanding Awards are surrendered, cancelled or exchanged for cash, the same type of Award or a different Award (or combination thereof).

“ **Exercise Price** ” means, with respect to an Option, the price at which a holder may purchase the Shares issuable upon exercise of an Option and with respect to a SAR, the price at which the SAR is granted to the holder thereof.

“ **Fair Market Value** ” means, as of any date, the value of a share of the Company’s Common Stock determined as follows:

(a) if such Common Stock is publicly traded and is then listed on a national securities exchange, the closing price on the date of determination on the principal national securities exchange on which the Common Stock is listed or admitted to trading as officially quoted in the composite tape of transactions on such exchange or such other source as the Committee deems reliable for the applicable date;

(b) if such Common Stock is publicly traded but is neither listed nor admitted to trading on a national securities exchange, the average of the closing bid and asked prices on the date of determination as reported in *The Wall Street Journal* or such other source as the Committee deems reliable;

(c) in the case of an Option or SAR grant made on the Effective Date, the price per share at which shares of the Company’s Common Stock are initially offered for sale to the public by the Company’s underwriters in the initial public offering of the Company’s Common Stock pursuant to a registration statement filed with the SEC under the Securities Act; or

(d) by the Board or the Committee in good faith.

“ **Insider** ” means an officer or Director of the Company or any other person whose transactions in the Company’s Common Stock are subject to Section 16 of the Exchange Act.

“ **Non-Employee Director** ” means a Director who is not an Employee of the Company or any Parent, Subsidiary or Affiliate.

“ **Option** ” means an award of an option to purchase Shares pursuant to Section 5.

“ **Parent** ” means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company if each of such corporations other than the Company owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

“ **Participant** ” means a person who holds an Award under this Plan.

“ **Performance Award** ” means cash or stock granted pursuant to Section 10 or Section 12 of the Plan.

“ **Performance Factors** ” means any of the factors selected by the Committee and specified in an Award Agreement, from among the following objective measures, either individually, alternatively or in any combination, applied to the Company as a whole or any business unit or Subsidiary or Affiliate, either individually, alternatively, or in any combination, on a GAAP or non-GAAP basis, and measured, to the extent applicable on an absolute basis or relative to a pre-established target, to determine whether the performance goals established by the Committee with respect to applicable Awards have been satisfied:

(a) Profit Before Tax;

(b) Billings;

- (c) Revenue;
 - (d) Net revenue;
 - (e) Earnings (which may include earnings before interest and taxes, earnings before taxes, and net earnings);
 - (f) Operating income;
 - (g) Operating margin;
 - (h) Operating profit;
 - (i) Controllable operating profit, or net operating profit;
 - (j) Net Profit;
 - (k) Gross margin;
 - (l) Operating expenses or operating expenses as a percentage of revenue;
 - (m) Net income;
 - (n) Earnings per share;
 - (o) Total stockholder return;
 - (p) Market share;
 - (q) Return on assets or net assets;
 - (r) The Company's stock price;
 - (s) Growth in stockholder value relative to a pre-determined index;
 - (t) Return on equity;
 - (u) Return on invested capital;
 - (v) Cash Flow (including free cash flow or operating cash flows)
 - (w) Cash conversion cycle;
 - (x) Economic value added;
 - (y) Individual confidential business objectives;
 - (z) Contract awards or backlog;
 - (aa) Overhead or other expense reduction;
 - (bb) Credit rating;
 - (cc) Strategic plan development and implementation;
 - (dd) Succession plan development and implementation;
 - (ee) Improvement in workforce diversity;
-

- (ff) Customer indicators;
- (gg) New product invention or innovation;
- (hh) Attainment of research and development milestones;
- (ii) Improvements in productivity;
- (jj) Bookings;
- (kk) Attainment of objective operating goals and employee metrics; and
- (ll) Any other metric that is capable of measurement as determined by the Committee.

The Committee may, in recognition of unusual or non-recurring items such as acquisition-related activities or changes in applicable accounting rules, provide for one or more equitable adjustments (based on objective standards) to the Performance Factors to preserve the Committee's original intent regarding the Performance Factors at the time of the initial award grant. It is within the sole discretion of the Committee to make or not make any such equitable adjustments.

“**Performance Period**” means the period of service determined by the Committee, during which years of service or performance is to be measured for the Award.

“**Performance Share**” means a performance share bonus granted as a Performance Award.

“**Permitted Transferee**” means any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law (including adoptive relationships) of the Employee, any person sharing the Employee's household (other than a tenant or employee), a trust in which these persons (or the Employee) have more than 50% of the beneficial interest, a foundation in which these persons (or the Employee) control the management of assets, and any other entity in which these persons (or the Employee) own more than 50% of the voting interests.

“**Plan**” means this Facebook, Inc. 2012 Equity Incentive Plan.

“**Purchase Price**” means the price to be paid for Shares acquired under the Plan, other than Shares acquired upon exercise of an Option or SAR.

“**Restatement Date**” means the date on which the Plan, as amended and restated herein, is approved by the Company's stockholders.

“**Restricted Stock Award**” means an award of Shares pursuant to Section 6 or Section 12 of the Plan, or issued pursuant to the early exercise of an Option.

“**Restricted Stock Unit**” means an Award granted pursuant to Section 9 or Section 12 of the Plan.

“**SEC**” means the United States Securities and Exchange Commission.

“**Securities Act**” means the United States Securities Act of 1933, as amended.

“**Shares**” means shares of the Company's Common Stock and the common stock of any successor entity.

“**Stock Appreciation Right**” means an Award granted pursuant to Section 8 or Section 12 of the Plan.

“**Stock Bonus**” means an Award granted pursuant to Section 7 or Section 12 of the Plan.

“**Subsidiary**” means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

“ **Substitute Awards** ” shall mean Awards granted or Shares issued by the Company in assumption of, or in substitution or exchange for, awards previously granted, or the right or obligation to make future awards, by a company acquired by the Company or any Subsidiary or Affiliate or with which the Company or any Subsidiary or Affiliate combines.

“ **Termination** ” or “ **Terminated** ” means, for purposes of this Plan with respect to a Participant, that the Participant has for any reason ceased to provide services as an employee, officer, director, consultant, independent contractor or advisor to the Company or a Parent, Subsidiary or Affiliate. The Committee will have sole discretion to determine whether a Participant has ceased to provide services for purposes of the Plan and the effective date on which the Participant ceased to provide services (the “ **Termination Date** ”).

“ **Unvested Shares** ” means Shares that have not yet vested or are subject to a right of repurchase in favor of the Company (or any successor thereto).

EXHIBIT A
FRENCH SUB-PLAN

**SUB-PLAN
TO THE FACEBOOK, INC.
2012 EQUITY INCENTIVE PLAN**

**Qualified Restricted Stock Units
(FRANCE)
June 20, 2016**

This Sub-Plan to the Facebook, Inc. (the “**Company**”) 2012 Equity Incentive Plan relating to Restricted Stock Units granted to Employees in France (the “**French Sub-Plan**”) was created under and pursuant to the Facebook, Inc. 2012 Equity Incentive Plan (the “**Plan**”) and is intended to govern Restricted Stock Units (“**RSUs**”) granted to French-Resident Participants that are intended to qualify for preferred treatment under French tax and social security laws. All other types of Awards shall not be governed by this French Sub-Plan, but remain governed by the terms of the Plan or any applicable sub-plan, as the case may be.

Grants made pursuant to this French Sub-Plan shall give rise to the issuance by the Board of a Restricted Stock Unit Agreement which shall specify the precise terms and conditions of each grant, subject to the provisions contained in this French Sub-Plan.

The Board may grant RSUs pursuant to this French Sub-Plan to any French-Resident Participant. All Sections and subsections of the Plan that relate to the grant of RSUs (exclusive of any other Awards) are incorporated herein and shall apply to RSUs granted pursuant to this French Sub-Plan, except that Sections 4.3, 5, 6, 7, 8, 10, 11, 12, 13.2, 15.2, 17, 18, 21.2, and 21.3 are not incorporated herein and the following Sections and subsections of the Plan shall be modified as set forth below. The modifications below, and the establishment of the French Sub-Plan, shall only affect RSUs granted pursuant to this French Sub-Plan and the recipients of such RSUs and shall not affect or modify the Plan in any other way.

Each Section of the Plan set forth below shall be amended to read as follows in the French Sub-Plan:

1. Purpose of the Plan.

Section 1 of the Plan shall be amended to read as follows:

**SOUS-PLAN
DU PLAN EN ACTIONS 2012 DE FACEBOOK, INC. 2012
(le « FACEBOOK, INC. 2012 EQUITY INCENTIVE PLAN »)
Plan d'attribution gratuite d'actions dit « éligible » (« Qualified
Restricted Stock Units »)
(FRANCE)
June 20, 2016**

Le présent sous-plan au plan « Equity Incentive Plan » 2012 de Facebook, Inc. (la « **Société** »), portant sur l'Attribution gratuite d'actions ou « Restricted Stock Units », octroyées aux Salariés français (le « **Sous-Plan Français** ») a été mis en œuvre en application du plan en actions 2012 de Facebook, Inc., « Facebook, Inc. 2012 Equity Incentive Plan » (le « **Plan** »). Il a vocation à régir les attributions gratuites d'actions ou « AGA », faites au profit de Participants Résidents Français, qui ont vocation à être éligibles au régime fiscal et social de faveur en droit français. Les autres types d'attributions (les « Autres Attributions ») ne sont pas régis par le présent Sous-Plan Français, mais restent régis par les dispositions du Plan et/ou de tout autre sous-plan applicable, selon le cas.

Les Attributions, faites en application du présent Sous-Plan Français donnent lieu à l'établissement, par le Conseil d'administration, d'un Contrat d'Attribution qui définit les termes précis et les conditions précises de chaque attribution, sous réserve des dispositions figurant dans le présent Sous-Plan Français.

Le Conseil d'administration peut attribuer des Actions Gratuites conformément au présent Sous-Plan Français à tous les Participants Résidents Français. Tous les articles et tous les sous-articles du Plan qui ont trait à l'attribution d'Actions Gratuites (à l'exclusion de toute autre Instrument) sont incorporés au présent document et s'appliquent aux Actions Gratuites attribuées conformément au présent Sous-Plan Français, à l'exception des articles 4.3, 5, 6, 7, 8, 10, 11, 12, 13.2, 15.2, 17, 18, 21.2 et 21.3 qui ne sont pas incorporés au présent document et des articles suivants du Plan qui sont modifiés selon les modalités indiquées ci-dessous. Les modifications ci-dessous, et la mise en œuvre du Sous-Plan Français, n'affectent que les Actions Gratuites octroyées conformément au présent Sous-Plan Français et les bénéficiaires de ces Actions Gratuites, sans affecter et modifier le Plan d'aucune autre manière.

Chaque article du Plan mentionné ci-dessous du Plan est modifié, pour être rédigé comme suit dans le Sous-Plan Français :

1. Objet du Plan.

L'article 1 du Plan est modifié, pour être rédigé comme suit :

1. PURPOSE. The purpose of this Plan is to provide incentives to attract, retain and motivate French-Resident Participants whose present and potential contributions are important to the success of the Company, and of any Parents and Subsidiaries that exist now or in the future, by offering them an opportunity to participate in the Company's future performance through the grant of Restricted Stock Units. Capitalized terms not defined elsewhere in the text are defined in Section 27.

2. Shares Subject to the Plan .

The subsection 2.6 shall be amended to read as follows:

2.6 Adjustment of Shares. If the number of outstanding Shares is changed by a stock dividend, recapitalization, stock split, reverse stock split, subdivision, combination, reclassification or similar change in the capital structure of the Company, without consideration, then (a) the number of Shares reserved for issuance and future grant under the Plan set forth in Section 2.1, (b) the number of Shares subject to outstanding RSUs, (c) the maximum number of Shares that may be issued to a French-Resident Participant in any one calendar year set forth in Section 3, shall be proportionately adjusted, subject to any required action by the Board or the stockholders of the Company and in compliance with applicable US and French securities and corporate laws, provided that fractions of a Share will not be issued and provided further that no consideration or indemnity whatsoever shall be paid in lieu of fractional shares, if any. Notwithstanding the foregoing, the Board shall be authorized to make adjustments in the number of Shares subject to an RSU only insofar as the adjustment aims at protecting and maintaining the rights of the applicable French-Resident Participant.

3. Eligibility .

Section 3 of the Plan shall be amended to read as follows:

3. ELIGIBILITY. RSUs granted under the Plan may be granted only to French-Resident Employees. No French-Resident Participant will be eligible to receive more than 2,500,000 Shares in any calendar year under this Plan pursuant to the grant of Awards except that new French-Resident Employees are eligible to receive up to a maximum of 5,000,000 Shares in the calendar year in which they commence their employment, subject to any applicable limitations under French law.

4. Administration .

1. OBJET. L'objet du présent Plan est d'octroyer des instruments incitatifs qui attirent, retiennent et motivent les Participants Résidents Français dont la contribution actuelle et potentielle est importante pour la réussite de la Société, des Sociétés Mères et des Filiales existantes ou qui pourraient à l'avenir exister, en leur offrant l'opportunité de participer à la performance future de la Société par l'attribution d'Actions Gratuites. Les termes avec une majuscule qui ne sont pas définis ailleurs dans le texte sont définis à l'article 27.

2. Actions couvertes par le Plan .

Le présent sous-article 2.6 est modifié pour être rédigé comme suit :

2.6 Ajustement des Actions. En cas de modification du nombre d'Actions en circulation en raison d'une distribution de dividendes en Actions, d'une recapitalisation, d'une division d'Actions, d'un regroupement d'Actions, d'une subdivision, d'une combinaison, d'un reclassement ou d'un changement similaire affectant la structure du capital de la Société, sans contrepartie, alors (a) le nombre d'Actions Gratuites pouvant être attribuées à l'avenir, en application du Plan et figurant à l'article 2.1, (b) le nombre d'Actions Gratuites déjà attribuées, (c) le nombre maximum d'Actions pouvant être livrées à un Participant Résident Français par année civile figurant à l'article 3, sera ajusté proportionnellement, en respectant les mesures éventuellement préconisées par le Conseil d'administration et les actionnaires de la Société et en conformité avec les législations américaine et française en matière de droit des sociétés, étant précisé d'une part qu'il ne sera pas émis de fractions d'Actions et d'autre part, que les fractions d'Actions ne donneront lieu ni à paiement, ni à indemnisation, sous quelque forme que ce soit. Nonobstant les dispositions qui précèdent, le Conseil d'administration ne sera autorisé à ajuster le nombre d'Actions Gratuites que dans la mesure où cet ajustement vise à protéger et à préserver les droits du Participant Résident Français concerné.

3. Éligibilité .

L'article 3 du Plan est modifié, pour être rédigé comme suit :

3. ÉLIGIBILITÉ. Les Actions Gratuites attribuées en application du Plan ne peuvent être octroyées qu'à des Salariés Résidents Français . Aucun Participant Résident Français ne sera éligible à recevoir plus de 2 500 000 Actions au titre d'année civile en application du Plan, à moins que les Salariés Résidents Français concernés soient nouvellement nommés dans l'exercice de leur emploi, auquel cas ils seront éligibles à recevoir un maximum de 5 000 000 Actions au cours de l'année civile de la conclusion de leur contrat de travail, sous réserve de toutes les restrictions applicables en droit français.

4. Administration .

Section 4.2 of the Plan shall be amended to read as follows:

4.2 Committee Interpretation and Discretion. Any determination made by the Committee with respect to an RSU shall be made in its sole discretion at the time of grant of such RSU or, unless in contravention of any express term of the Plan or French Sub-Plan, at any later time, and such determination shall be binding on the Company and all persons having an interest in any RSU under the Plan. Any dispute regarding the interpretation of the Plan, French Sub-Plan or any RSU Agreement shall be submitted to the Committee for resolution, and the Committee may delegate to one or more executive officers the authority to review and resolve disputes with respect to Awards held by Participants, including French-Resident Participants, who are not Insiders. Any dispute that cannot be resolved accordingly shall be submitted by the Participant or Company to the exclusive jurisdiction of the State of California.

9. Restricted Stock Units.

Subsections 9.1, 9.3 and 9.4 shall be deleted and replaced by the following, and subsections 9.5 to 9.12 will be inserted in this Section 9:

9.1 Awards of Restricted Stock Units. A Restricted Stock Unit (“*RSU*”) is an award granted to a French-Resident Participant covering a number of Shares that may be settled on a given date by issuance of new Shares or the delivery of existing Shares. In the case where the RSU gives the right to receive existing Shares, the Company shall repurchase such Shares prior to the date on which the RSUs are settled. All RSU grants shall be made pursuant to an Award Agreement.

9.3 Form and Timing of Settlement. RSU Shares will be issued/transferred for free to the French-Resident Participants who satisfy the conditions of the Plan, this French Sub-Plan, and the applicable Restricted Stock Unit Agreement. French-Resident Participants will not be required to make any investment to receive the Shares. Delivery of RSU Shares pursuant to vested RSUs shall be made on the date(s) determined by the Committee and set forth in the applicable Restricted Stock Unit Agreement. The Committee must settle vested RSUs exclusively in Shares.

9.4 Vesting Conditions. Subject to the terms of the Plan, this French Sub-Plan, and the applicable Restricted Stock Unit Agreement, RSUs shall vest as set forth in the applicable Restricted Stock Unit Agreement, provided that the vesting schedule cannot provide for vesting earlier than the first annual anniversary of the Grant Date.

L'article 4.2 du Plan est modifié, pour être rédigé comme suit :

4.2 Interprétation et pouvoir discrétionnaire d'appréciation du Comité. Toutes les décisions du Comité relatives aux Actions Gratuites seront prises discrétionnairement au moment de l'Attribution ou, sous réserve de ne pas contrevenir à une disposition expresse du Plan ou du Sous-Plan Français, à une date ultérieure et ces décisions seront opposables à la Société ainsi qu'à toute personne attributaire d'Actions Gratuites régies par le Plan. Les différends relatifs à l'interprétation du Plan, du Sous-Plan Français ou du Contrat d'Attribution seront soumis au Comité, et le Comité pourra déléguer à un ou plusieurs administrateurs dirigeants le pouvoir d'examiner et de régler les différends relatifs aux Attributions, pour autant que ces Participants ne soient pas des Initiés. Les différends qui ne pourront être réglés corrélativement seront déferés par le Participant ou par la Société à la compétence exclusive de l'État du Californie.

9. Attribution d'Action Gratuites.

Les Sous-articles 9.1, 9.3 et 9.4 du Plan sont supprimés et remplacés par les dispositions suivantes et les articles 9.5 à 9.12 seront ajoutés au présent Article 9:

9.1 Attributions d'Actions Gratuites. Une attribution d'Actions Gratuites est une attribution faite au profit d'un Participant Résident Français, du droit conditionnel de recevoir à un terme donné, un certain nombre d'Actions nouvelles ou existantes. Au cas où les Actions Gratuites donnent le droit de recevoir des Actions existantes, la Société devra racheter ces Actions avant la date de livraison des Actions. Toutes les Attributions d'Actions Gratuites devront être réalisées conformément aux termes du Contrat d'Attribution.

9.3 Forme et calendrier de livraison. Les Actions Gratuites seront émises/transférées gratuitement aux Participants Résidents Français qui remplissent les conditions du Plan, du Sous-Plan Français et du Contrat d'Attribution applicable. Les Participants Résidents Français n'auront pas à déboursier la moindre somme pour recevoir les Actions. La remise des Actions définitivement acquises interviendra à la date ou aux dates décidées par le Comité et indiquées dans le Contrat d'Attribution applicable. Le Comité livrera les Actions Gratuites définitivement acquises exclusivement en Actions.

9.4 Conditions d'acquisition. Sous réserve du respect des dispositions du Plan, du présent Sous-Plan Français et du Contrat d'Attribution applicable, les Actions Gratuites seront acquises suivant le calendrier figurant dans le Contrat d'Attribution applicable, étant précisé que le calendrier d'acquisition ne pourra prévoir que la Date d'Acquisition des Actions intervienne avant le premier anniversaire suivant la Date d'Attribution.

Notwithstanding the foregoing, in the case of the French-Resident Participant's death, any vesting conditions based on the French-Resident Participant's continuous service shall be waived and the French-Resident Participant's heir or heirs may request the delivery of the Shares within a period of six (6) months following his or her death. If the French-Resident Participant's heir or heirs do not request delivery of the Shares within a period of six (6) months following the French-Resident Participant's death, the RSUs will be forfeited.

9.5 Termination of French-Resident Participant. Except as may be set forth in the French-Resident Participant's Restricted Stock Unit Agreement, and save the case of Death, vesting shall cease upon the termination of the French-Resident Participant's continuous service (unless determined otherwise by the Committee).

9.6 Selling Restrictions. The Shares will be delivered to the French-Resident Participants upon the settlement of RSUs on the date(s) determined by the Committee and set forth in the applicable Restricted Stock Unit Agreement. Shares will be delivered and recorded in an account opened in the name of the shareholder (inscription au nominatif) with a broker or an escrow agent or in such other manner as the Company may otherwise determine in order to ensure compliance with applicable French law. However, the French-Resident Participants will not be permitted to sell, transfer, pledge or otherwise assign the Shares received upon settlement of RSUs during the Holding Period, provided that the Holding Period shall not apply and accelerated sale will be permitted in the case of the French-Resident Participant's death or Disability.

Nonobstant les dispositions qui précèdent, en cas de décès d'un Participant Résident Français, la condition de présence du Participant Résident Français sera levée et le ou les héritiers du Participant Résident Français pourront demander à se faire attribuer définitivement les Actions dans un délai de six (6) mois suivant son décès. Si le ou les héritiers du Participant Résident Français ne demandent pas la livraison des Actions dans un délai de six (6) mois suivant le décès du Participant Résident Français, les Actions Gratuites seront caduques.

9.5 Cessation des fonctions du Participant Résident Français. Sauf indication contraire figurant dans le Contrat d'Attribution, et hormis le cas de décès, les droits d'un Participant Résident Français à recevoir ses Actions seront caducs si le Participant Résident Français ne satisfait plus à la condition de présence au cours de la Période d'Acquisition (sauf décision contraire du Comité).

9.6 Restrictions à la vente. Les Actions seront livrées aux Participants Résidents Français à l'issue de la Période d'Acquisition, à la date ou aux dates décidées par le Comité et figurant dans le Contrat d'Attribution applicable. Les Actions seront remises et inscrites sur un compte ouvert au nom de l'actionnaire (inscription au nominatif) chez un courtier ou chez un mandataire séquestre, ou suivant toutes les modalités décidées par ailleurs par la Société, afin d'assurer le respect du droit français applicable. Toutefois, il ne sera pas permis aux Participants Résidents Français de vendre ou de transférer sous quelque forme que ce soit les Actions pendant la Période de Conservation, étant précisé que la Période de Conservation ne s'appliquera pas, et qu'une vente anticipée sera autorisée, en cas de décès ou d'Invalidité du Participant Résident Français.

9.7 Insider Trading Restrictions. Following the expiration of the Holding Period, Shares received upon settlement of RSUs may be subject to further sale restrictions as set forth in the Plan, this French Sub-Plan and the applicable Restricted Stock Unit Agreement. 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 and 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 shall apply to French-Resident Participants unless they are 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, Participants are at all times required to comply with the Facebook, Inc. Insider Trading Policy as may be amended from time to time 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 a French-Resident Participant trades during any applicable Black-Out Period as described in the Insider Trading Policy, or if the French tax authorities deem that the French-Resident Participant has not complied with the French closed period restrictions above and/or similar rules under applicable U.S. law, the RSUs and Shares received under the RSUs may lose Qualified status, and the French-Resident Participant may not receive preferential tax treatment.

9.8 Death of a French-Resident Participant. In addition to the rules set forth in Section 9.4 above, if a French-Resident Participant dies during the Acquisition Period or the Holding Period, the Holding Period shall not apply and the Shares received upon settlement of RSUs shall be immediately transferable, except as may be required under Section 9.7 above and the Plan.

9.9 Disability of a French-Resident Participant. Notwithstanding any provisions of the Plan, this French RSU Sub-Plan, and the applicable Restricted Stock Unit Agreement, in the case of Disability of a French-Resident Participant during the Holding Period, the Holding Period shall not apply and the Shares received upon settlement of the RSUs shall be immediately transferable, except as may be required under Section 9.7 above and the Plan.

9.7 Restrictions relatives au Délit d'Initié, « Fenêtres négatives ». Après l'expiration de la Période de Conservation, les Actions Gratuites seront librement cessibles, sous réserve des restrictions supplémentaires à la cession éventuellement indiquées dans le Plan, le présent Sous-Plan Français et le Contrat d'Attribution applicable. Conformément à l'article L 225-197-1 du Code de commerce français, les actions d'une société cotée ne pourront être cédées (i) dans le délai de dix (10) séances de bourse précédant et de trois (3) séances de bourse suivant la date à laquelle les comptes consolidés, ou à défaut les comptes annuels, sont rendus publics ; et (ii) dans le délai compris entre la date à laquelle les organes sociaux de la société auront eu connaissance d'une information qui, si elle était rendue publique, pourrait avoir une incidence significative sur le cours des titres de la société, et la date postérieure de dix (10) séances de bourse à celle où cette information est rendue publique. Ces règles s'appliqueront aux Participants Résidents Français, sauf s'ils sont par ailleurs soumis à des restrictions de cession des Actions en raison de règles similaires applicables en droit américain, cas auquel les règles américaines prévaudront. Dans tous les cas, les Participants sont tenus de satisfaire à tout moment aux Règles relatives aux Opérations d'Initiés en vigueur édictées par Facebook, Inc., et en particulier à la Section II relative à l'interdiction de négocier sur la base d'informations non-publiques significatives, aux fenêtres négatives et autres sujets importants. Les personnes qui violeront ces règles générales et les Règles relations aux Opérations d'Initiés pourront être passibles de sanctions légales et financières. Si un Participant Résident Français négocie pendant une Fenêtre Négative telle que décrite dans les Règles relatives aux Opérations d'Initiés, ou si l'administration fiscale française considère que le Participant Résident Français n'a pas satisfait aux restrictions du Code de commerce français susmentionnées et/ou aux règles similaires applicables aux termes du droit américain, le Participant Résident Français pourrait ne pas bénéficier du régime fiscal de faveur attaché à ses Actions Gratuites.

9.8 Décès d'un Participant Résident Français. Outre les règles indiquées à l'article 9.4 ci-dessus, si un Participant Résident Français décède au cours de la Période d'Acquisition ou de la Période de Conservation, la Période de Conservation ne s'appliquera pas et les Actions issues de l'Attribution seront immédiatement cessibles, sous réserve du respect des dispositions de l'article 9.7 ci-dessus et du Plan.

9.9 Invalidité d'un Participant Résident Français. Nonobstant toute disposition du Plan, du présent Sous-Plan Français et du Contrat d'Attribution applicable, si un Participant Résident Français est frappé d'Invalidité au cours de la Période de Conservation, la Période de Conservation ne s'appliquera pas et les Actions issues de l'Attribution seront immédiatement cessibles, sous réserve du respect des dispositions de l'article 9.7 ci-dessus et du Plan.

9.10 Entitlements / No Employment Rights . A French-Resident Participant's rights, if any, in respect of or in connection with any RSU are derived solely from the discretionary decision of the Company to permit the individual to participate in this French Sub-Plan and to benefit from a discretionary RSU. By accepting an RSU under the French Sub-Plan, a French-Resident Participant expressly acknowledges that there is no obligation on the part of the Company to continue the Plan or the French Sub-Plan and/or grant any additional RSUs. Any RSU granted hereunder is not intended to be compensation of a continuing or recurring nature, or part of a French-Resident Participant's normal or expected compensation, and in no way represents any portion of a Participant's salary, compensation, or other remuneration for purposes of pension benefits, severance, redundancy, resignation or any other purpose.

The Company, and any Parent, Subsidiary and/or affiliate (including any French Subsidiary), reserve the right to terminate the service of any person at any time, and for any reason, subject to applicable laws, applicable articles of incorporation and bylaws and any written employment agreement (if any), and such terminated person shall be deemed irrevocably to have waived any claim to future vesting, damages or specific performance with respect to the Plan this French Sub-Plan or any outstanding RSU that is forfeited and/or is terminated by its terms or to any future RSU.

9.12 Other Provisions .

The Restricted Stock Unit Agreement shall contain such other terms, provisions and conditions not inconsistent with the Plan and this French Sub-Plan as may be determined by the Committee in its sole discretion. In addition, the provisions of Restricted Stock Unit Agreements need not be the same with respect to each French-Resident Participant.

None of the provisions in the Plan and the French Sub-Plan shall have as their effect the establishment or recognition of the existence of a contract of any type whatsoever between the French-Resident Participants and Facebook, Inc.

13. Withholding Taxes .

Subsection 13 of the Plan shall be deleted and replaced by the following:

9.10 Droits / Absence de droit lié au contrat de travail . Les droits éventuels d'un Participant Résident Français concernant les, ou relatifs aux, Actions Gratuites résultent de la seule décision discrétionnaire de la Société de permettre à cette personne physique de participer au présent Plan et Sous-Plan Français et de bénéficier discrétionnairement d'une Attribution d'Actions Gratuites. En acceptant l'Attribution régie par le Sous-Plan Français, un Participant Résident Français reconnaît expressément qu'il n'existe aucune obligation, pour la Société, de procéder à de nouvelles Attributions à l'avenir et/ou de procéder à l'attribution d'Actions Gratuites supplémentaires. Les Actions Gratuites accordées en application du présent document ne constituent pas un élément de rémunération récurrent et ne font pas partie de la rémunération normale ou prévisible d'un Participant Résident Français. Elles ne sauraient être prises en compte dans le salaire ou la rémunération, ou dans toute autre rétribution d'un Participant Résident Français pour les besoins du calcul de ses indemnités de retraite, de licenciement, de démission ou de départ de la société qui emploie le Participant Résident Français (ou au sein de laquelle il exerce ses fonctions) .

La Société, et toute Société-Mère, les Filiales et/ou les sociétés affiliés (y compris les Filiales françaises) se réservent le droit de mettre fin au contrat de travail de toute personne, à tout moment, et pour tout motif, dans le respect de la législation applicable, des statuts applicables et du contrat de travail écrit (s'il en existe un), et la personne dont l'emploi ou la fonction aura ainsi pris fin sera irrévocablement présumée avoir renoncé à intenter toute action en dommages-intérêts ou en exécution du Plan, du présent Sous-Plan Français, et à tout droit sur les Actions Gratuites qui ne lui seraient pas définitivement acquises et qui seront caduques et/ou résiliées par leurs propres stipulations, ou aux Actions Gratuites futures.

9.12 Autres dispositions .

Le Contrat d'Attribution comportera tous autres termes, dispositions et conditions, ne contredisant pas le Plan et le présent Sous-Plan Français, qui seront décidées par le Comité à sa seule discrétion. En outre, les dispositions des Contrats d'Attribution n'auront pas à être identiques pour chaque Participant Résident Français.

Aucune disposition du Plan et du Sous-Plan Français n'aura pour effet de créer ni de reconnaître l'existence d'un contrat, de quelque type que ce soit, entre les Participants Résidents Français et Facebook, Inc.

13. Retenues à la source .

L'article 13 du Plan est supprimé et remplacé comme suit :

Whenever Shares are to be issued in satisfaction of RSUs granted under this Plan, the Company may require the French-Resident Participant to remit to the Company, Parent, or Subsidiary employing the French-Resident Participant or, as the case may be, to the plan administrator (if different than the Company) or the broker or escrow agent where the Shares are registered, an amount sufficient to satisfy applicable U.S. federal, state, local, French and other withholding tax requirements, as the case may be, or any other tax liability legally due from the French-Resident Participant or otherwise in respect of a French-Resident Participant's participation in the Plan as described in the Restricted Stock Unit Agreement, prior to the delivery of Shares pursuant to settlement of an RSU, or, as the case may be, prior to the delivery of the Shares sales proceeds, any time after the end of the Holding Period.

14. Transferability .

Section 14 of the Plan shall be deleted and replaced by the following:

14.1 Assignment or Transfer of RSUs. RSUs are personal to each French-Resident Participant. A French-Resident Participant cannot sell, transfer or pledge his or her right to receive Shares pursuant to an RSU under the Plan and this French Sub-Plan, except if such transfer occurs through succession to legal beneficiaries in the event of death of the Participant pursuant to Section 9.4 above.

14.2 Trusts. RSUs cannot be transferred or otherwise assigned by a French-Resident Participant to a trustee of any trust or any similar institution of any kind.

15. Privileges of Stock Ownership; Restrictions on Shares .

Section 15 of the Plan shall be deleted and replaced by the following Section 15:

15. PRIVILEGES OF STOCK OWNERSHIP. No French-Resident Participant will have any of the rights of a stockholder with respect to any Shares until the RSUs are settled and the Shares are issued to the French-Resident Participant. After Shares are issued to the French-Resident Participant, the French-Resident Participant will be a stockholder and have all the rights of a stockholder with respect to such Shares, including the right to vote and receive all dividends or other distributions made or paid with respect to such Shares, provided that additional Shares the French-Resident Participant may become entitled to receive with respect to such Shares by virtue of a stock split of the Company will be subject to the same holding restrictions as the Shares.

21. Corporate Transactions .

13. Retenues à la source - Généralités . À chaque fois qu'il faudra émettre des Actions en application du présent Plan, la Société pourra demander au Participant Résident Français de remettre à la Société, à la Société Mère ou à la Filiale qui emploie le Participant Résident Français (ou, selon le cas, à l'administrateur du Plan (s'il est différent de la Société) ou au courtier ou au mandataire séquestre chez lequel les Actions sont inscrites, un montant suffisant pour satisfaire aux obligations fiscales en matière de retenue à la source, qu'elle soient imposées par le droit américain au niveau fédéral, étatique ou local, le droit français ou tout autre droit, ou afférente à tout autre impôt dû par un Résident Participant Français ou autrement à raison de sa participation au Plan tel qu'il est décrit dans le Contrat d'Attribution, et ce, avant de livrer les Actions à l'issue de la Période d'Acquisition ou, selon le cas, avant de lui rétrocéder le produit de cession de ses Actions, à tout moment après la fin de la Période de Conservation.

14. Cessibilité .

L'article 14 du Plan est supprimé et remplacé par les dispositions suivantes :

14.1 Transmission ou cession des Actions Gratuites . Les Actions Gratuites sont personnelles à chaque Participant Résident Français. Un Participant Résident Français ne pourra vendre, céder ou nantir son droit à recevoir des Actions Gratuites au terme du Plan et du présent Sous-Plan Français, sauf si ce transfert a lieu par voie de dévolution successorale, à la suite du décès du Participant, conformément à l'article 9.4 ci-dessus.

14.2 Trusts . Les Actions Gratuites ne pourront être cédées ou transférées de quelque manière que ce soit par un Participant Résident Français à un trustee en charge de la gestion d'un trust ou d'une institution similaire de tout type.

15. Droits attachés aux Actions - Restrictions pesant sur les Actions .

L'article 15 du Plan est supprimé et remplacé par l'article 15 suivant :

15. DROITS ATTACHES AUX ACTIONS. Aucun Participant Résident Français n'aura de droits d'actionnaire sur les Actions durant la Période d'Acquisition. Postérieurement à la livraison des Actions au Participant Résident Français, le Participant Résident Français sera actionnaire et disposera de tous les droits d'un actionnaire sur les Actions issues de l'Attribution, y compris le droit de voter et de recevoir des dividendes ou toute autre distribution faite ou versée au titre de ces Actions, étant précisé que les Actions supplémentaires que le Participant Résident Français pourrait le cas échéant recevoir au titre de ces Actions Gratuites en cas de division des Actions de la Société, seront soumises aux mêmes restrictions et conditions de conservation que les Actions issues de l'Attribution.

21. Opérations sur le Capital Social .

The following subsections of Section 21 of the Plan shall be amended to read as follows:

21.1 Assumption or Replacement of Awards by Successor. In the event of a Corporate Transaction, outstanding RSUs shall be subject to the applicable agreement of merger, reorganization, or sale of assets. Such agreement may provide, without limitation, for the assumption or substitution of outstanding RSUs by the surviving corporation or its parent or for the cancellation of outstanding RSUs, with or without consideration. Notwithstanding the foregoing, the Administrator may determine, at the time of grant of RSUs or thereafter, that such RSUs shall become partially or fully vested upon the consummation of a Corporate Transaction or at some time or upon some event related to the Corporate Transaction, in which case the RSUs may no longer benefit from the favorable tax and social security regime.

24. Amendment or Termination of the Plan

Section 24 of the Plan shall be deleted and replaced by the following Section 24:

24. AMENDMENT OR TERMINATION OF THE PLAN. No modification may be made to the Plan or the French Sub-Plan with respect to outstanding RSUs previously granted pursuant to the French RSU Sub-Plan unless such modification is required by law, regulation or published administrative interpretation. French-Resident Participants shall be notified of any such modifications to the Plan that affect their rights under the Plan and the French Sub-Plan rules. Such notification may be made by means of individual communication, general notice posted in the workplace, or such other means that are more adequate and appropriate. With respect to future RSUs to be granted pursuant to the French Sub-Plan, the Board may at any time amend, alter, suspend or discontinue the Plan or the French Sub-Plan. In addition, to the extent necessary and desirable to comply with the Applicable Laws, the Company shall obtain stockholder approval of any Plan amendment in such a manner and to such a degree as required.

27. Definitions.

Section 27 of the Plan shall be amended to read as follows:

27. DEFINITIONS. The terms set forth below shall have the meanings set forth in this Section 27, rather than the definition, if any, set forth in the Plan. Unless otherwise defined in this French Sub-Plan, including this Section 27, capitalized terms used in this French Sub-Plan shall have the meaning set forth in the Plan.

Les Sous-articles suivants de l'article 21 du Plan sont modifiés pour être rédigés comme suit :

21.1 Reprise ou substitution. En cas d'Opération sur le Capital Social durant la Période d'Acquisition, les Actions Gratuites seront soumises au contrat de fusion, de restructuration ou de cession d'actifs applicable. Ce contrat pourra prévoir, notamment, la reprise ou la substitution des Actions Gratuites par la société survivante ou par sa société mère, ou l'annulation des Actions Gratuites, avec ou sans paiement d'une contrepartie. Nonobstant les dispositions qui précèdent, l'Administrateur pourra décider, au moment de l'attribution des Actions Gratuites ou ultérieurement, que ces Actions Gratuites deviendront partiellement ou intégralement acquises au Participant Résident Français au moment de la réalisation d'une Opération sur le Capital Social, ou à un moment ou lors d'un événement quelconque relatif à l'Opération sur le Capital Social, auquel cas les Actions Gratuites ne pourront plus bénéficier du régime de faveur fiscal et social.

24. Modification ou terme du Plan

L'article 24 du Plan est supprimé et remplacé par l'article 24 suivant :

24. MODIFICATION OU TERME DU PLAN. Les seules modifications qui peuvent être apportées au Plan ou au Sous-Plan Français en ce qui concerne les Actions Gratuites attribuées en application du Sous-Plan Français sont les modifications imposées par la législation, la réglementation ou la doctrine administrative régulièrement publiée. Les Participants Résidents Français seront informés des modifications du Plan qui affecteront leurs droits au terme du Plan et du Sous-Plan Français. Cette information pourra être faite par voie de communication individuelle, par avis affiché sur le lieu de travail ou par tout autre moyen qui serait plus adéquat et plus approprié. En ce qui concerne les attributions futures qui pourraient être réalisées en application du Sous-Plan Français, le Conseil d'administration pourra à tout moment modifier, changer, suspendre ou interrompre le Plan ou le Sous-Plan Français. De plus, dans la mesure nécessaire et souhaitable pour respecter la Législation Applicable, la Société devra obtenir l'accord des actionnaires pour modifier l'une quelconque des clauses du Plan, selon les modalités et les conditions requises par la Législation Applicable.

27. Définitions.

L'article 27 du Plan est modifié, pour être rédigé comme suit :

27. DÉFINITIONS. Les termes figurant ci-dessous ont la signification figurant dans le présent article 27, plutôt que la définition figurant éventuellement dans le Plan. Sauf définition contraire figurant dans le présent Sous-Plan Français, y compris dans le présent article 27, les termes avec une majuscule à l'initiale utilisés dans le présent Sous-Plan Français auront la signification figurant dans le Plan.

<p>“ <u>Acquisition Period</u> ” means the period between the Grant Date and the Vesting Date.</p>	<p>« <u>Période d'Acquisition</u> » désigne la période commençant à la Date d'Attribution et prenant fin à la Date d'Acquisition.</p>
<p>“ <u>Award</u> ” means any grant of a Restricted Stock Unit made under this French Sub-Plan.</p>	<p>« <u>Attribution</u> » désigne l'attribution d'Actions Gratuites faite en application du présent Sous-Plan Français.</p>
<p>“ <u>Committee</u> ” means the Compensation Committee of the Board or those persons to whom administration of the Plan, or part of the Plan, has been delegated as permitted by law.</p>	<p>« <u>Comité</u> » désigne le Comité des Rémunérations du Conseil d'administration, ou les personnes ayant reçu une délégation pour administrer le Plan ou une partie du Plan selon les modalités autorisées par la loi.</p>
<p>“ <u>Disability</u> ” means total and permanent disability established on the basis of medical evidence and corresponding to the ranking in the second or third category provided in article L.341-4 of the French Social Security Code (“Code de la sécurité sociale”).</p>	<p>« <u>Invalidité</u> » désigne une invalidité totale et permanente, attestée au moyen d'un certificat médical et correspondant au classement dans la deuxième ou dans la troisième catégorie prévue à l'article L. 341-4 du Code de la sécurité sociale français.</p>
<p>“ <u>French-Resident Participant</u> ” means a French-Resident Employee, who has been selected to receive an RSU under this French Sub-Plan.</p>	<p>« <u>Résident Participant Français</u> » désigne un Salarié Résident Français, qui est éligible à recevoir des Actions Gratuites en application du présent Sous-Plan Français.</p>
<p>“ <u>French-Resident Employee</u> ” means an individual who:</p> <p>(i) is employed in a salaried position by (A) a French Subsidiary, (B) the Company (if such individual works for a French branch of the Company), or (C) a non-French Subsidiary (if such individual works for a French branch of the non-French Subsidiary;</p> <p>(ii) is a resident of France for tax purposes on the Grant Date; and</p> <p>(iii) does not own on the Grant Date and will not own thereafter more than ten percent (10%) of the share capital of the Company.</p>	<p>« <u>Salarié Résident Français</u> » désigne une personne physique qui :</p> <p>(i) à la qualité de salarié de (A) une Filiale française, (B) la Société (si cette personne physique travaille pour une succursale française de la Société), ou (C) une Filiale française (si cette personne physique travaille pour une succursale française d'une Filiale non française;</p> <p>(ii) est fiscalement résidente de France à la Date d'Attribution ; et</p> <p>(iii) ne possède pas, à la Date d'Attribution, et ne possèdera pas, à l'issue de l'Attribution, plus de dix pour cent (10 %) du capital social de la Société.</p>
<p>“ <u>Grant</u> ” means the grant of an RSU under this French RSU Sub-Plan.</p>	<p>« <u>Attribution</u> » désigne l'attribution d'une Action Gratuite en application du présent Sous-Plan Français.</p>
<p>“ <u>Grant Date</u> ” means the date on which the Committee approves grants RSUs to French-Resident Participants under this French RSU Sub-Plan. Notice of the determination shall be given to each French-Resident Participant to whom an Award is so granted within a reasonable time after the date of such grant approval.</p>	<p>« <u>Date d'Attribution</u> » désigne la date à laquelle le Comité approuve l'Attribution des Actions Gratuites à des Participants Résidents Français en vertu du présent Sous-Plan Français. Chaque Participant Résident Français auquel une Action Gratuite est ainsi attribuée est informé de la décision d'Attribution dans un délai raisonnable après la date de cette approbation d'Attribution.</p>
<p>“ <u>Holding Period</u> ” means the period beginning on the date of transfer of ownership of RSU Shares, it being understood that the cumulative duration of the Vesting Period and the Holding Period cannot be shorter than two (2) years from the Grant Date.</p>	<p>« <u>Période de Conservation</u> » désigne la période commençant à la date du transfert de propriété, étant précisé que la durée cumulée de la Période d'Acquisition et de la Période de Conservation ne peut être inférieure à deux (2) ans suivant la Date d'Attribution.</p>

“ **Restricted Stock Unit** ” or “ **RSU** ” means the right, granted in accordance with articles L.225-197-1 et seq. of the French Commerce Code (Code de Commerce), giving a French-Resident Participant the right to receive Shares pursuant to a vesting schedule and the other terms and conditions set forth in the applicable Restricted Stock Unit Agreement, it being specified that the vesting schedule cannot provide for vesting earlier than the first (1st) annual anniversary of the Grant Date.

“ **RSU Share** ” means a Share issued pursuant to an RSU that is subject to selling restrictions for a period determined by the Committee which, together with the Vesting Period, can be no less than two (2) years from the Grant Date. The total number of Shares subject to RSUs granted by the Company cannot exceed ten percent (10%) of its share capital at the Grant Date.

“ **Subsidiary** ” means a subsidiary of the Company, the share capital or voting power of which is at least ten percent (10%) owned, directly or indirectly, by the Company, and any other company in which the Company may come to own at least ten percent (10%) of the share capital or voting power, directly or indirectly.

“ **Vesting Date** ” means the date on which the conditions set forth in the Restricted Stock Unit Agreement are met and the RSUs are settled in Shares, it being specified that such date cannot occur earlier than the second (1st) annual anniversary of the Grant Date.

28. Miscellaneous Provisions. The following Section shall be added to this French Sub-Plan:

(a) **Severability.** In the event that any term or condition of the Plan and this French Sub-Plan is considered to be void under applicable law in any jurisdiction with respect to any French-Resident Participant, the Plan and this French Sub-Plan shall be interpreted in respect of such French-Resident Participant as if they did not contain such term or condition. All other terms and conditions of the Plan and this French Sub-Plan that are valid shall remain fully in force and shall be interpreted and applied in the manner that most closely respects the original intention of the Plan and this French Sub-Plan.

(b) **Language.** The Plan and this French Sub-Plan shall be translated into French but if the translated versions are different than the English version, the English version will prevail.

« **Action Gratuite** » ou « **AGA** », ou « Restricted Stock Unit », désigne le droit octroyé à un Participant Résident Français conformément aux dispositions des articles L.225-197-1 et suivants du Code de commerce français, lui conférant le droit conditionnel de recevoir des Actions Gratuites suivant un calendrier d'acquisition et sous réserve du respect de conditions figurant dans le Contrat d'Attribution applicable, étant précisé que le calendrier d'acquisition ne pourra prévoir que cette acquisition intervienne avant le premier (1er) anniversaire suivant la Date d'Attribution.

« **Action issue de l'Attribution** » désigne une Action attribuée gratuitement à l'issue de la Période d'Acquisition et faisant l'objet d'une obligation de conservation pendant une période fixée par le Comité et dont la durée, ajoutée à celle de la Période d'Acquisition, ne peut être inférieure à deux (2) ans suivant la Date d'Attribution. Le nombre total d'Actions attribuées par la Société en application du Sous-Plan Français ne peut excéder dix pour cent (10 %) de son capital social à la Date d'Attribution.

« **Filiale** » désigne une filiale de la Société, dont le capital social ou les droits de vote sont détenus directement ou indirectement à hauteur de dix pour cent (10 %) au moins par la Société, et toute autre société dont la Société pourrait venir à détenir, directement ou indirectement, au moins dix pour cent (10 %) du capital social ou des droits de vote.

« **Date d'Acquisition** » désigne la date à laquelle les conditions indiquées dans le Contrat d'Attribution sont remplies et les Actions Gratuites sont définitivement acquises et livrées, étant précisé que cette date ne peut intervenir avant le premier (1er) anniversaire de la Date d'Attribution.

28. Divers. L'article suivant est ajouté au Sous-Plan Français :

(a) **Dissociabilité.** Si une clause ou une condition du Plan ou du présent Sous-Plan Français venait à être considérée comme étant nulle d'après le droit applicable de n'importe quel État, le Plan et le présent Sous-Plan Français devront être interprétés, pour le Participant Résident Français concerné, comme s'ils ne renfermaient pas cette clause ou cette condition. Toutes les autres clauses et conditions du Plan et du présent Sous-Plan Français qui sont valables resteront pleinement applicables et devront être interprétées et s'appliquer d'une manière qui respecte le plus étroitement possible l'intention originale du Plan et du présent Sous-Plan Français.

(b) **Langue.** Le Plan et le présent Sous-Plan Français seront traduits en français, mais si les versions traduites sont différentes de la version anglaise, la version anglaise prévaudra.

**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: July 28, 2016

/s/ MARK ZUCKERBERG

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: July 28, 2016

/s/ DAVID M. WEHNER

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 June 30, 2016 (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: July 28, 2016

/s/ MARK ZUCKERBERG

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 June 30, 2016 (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: July 28, 2016

/s/ DAVID M. WEHNER

David M. Wehner

Chief Financial Officer

(Principal Financial Officer)