- Revenue by geography (P. 16)
- On April 1, 2015, a putative class action was filed against us in the U.S. District Court for the Northern District of California by Facebook users alleging that the "tag suggestions" facial recognition feature violates the Illinois Biometric Information Privacy Act, and seeking statutory damages and injunctive relief. On April 16, 2018, the district court certified a class of Illinois residents, and on May 14, 2018, the district court denied both parties' motions for summary judgment. On May 29, 2018, the U.S. Court of Appeals for the Ninth Circuit granted our petition for review of the class certification order and stayed the proceeding. On August 8, 2019, the Ninth Circuit affirmed the class certification order. On December 2, 2019, we filed a petition with the U.S. Supreme Court seeking review of the decision of the Ninth Circuit, which was denied. On January 15, 2020, the parties agreed to a settlement in principle to resolve the lawsuit, which provided for a payment of $550 million by us and was subject to court approval. On or about May 8, 2020, the parties executed a formal settlement agreement, and plaintiffs filed a motion for preliminary approval of the settlement by the district court. On June 4, 2020, the district court denied the plaintiffs' motion without prejudice. On July 22, 2020, the parties executed an amended settlement agreement, which, among other terms, provides for a payment of $650 million by us. The settlement is subject to court approval. The settlement amount is reflected in accrued expenses and other current liabilities on our condensed consolidated balance sheet as of June 30, 2020.
- During the six months ended June 30, 2020, we repurchased and subsequently retired 13 million shares of our Class A common stock for an aggregate amount of $2.62 billion. As of June 30, 2020, $12.28 billion remained available and authorized for repurchases.
- On April 21, 2020, we entered into a definitive agreement to invest in Jio Platforms Limited, a subsidiary of Reliance Industries Limited. The transaction closed on July 7, 2020, and we paid approximately $5.8 billion at the then-current exchange rate. We elected to use the measurement alternative for this equity investment without a readily determinable fair value, which requires the investment to be held at cost and adjusted for impairment and to fair value for observable transactions for identical or similar investments of the same issuer.
- Beginning in the first quarter of 2020, we experienced significant increases in the size and engagement of our active user base across a number of regions as a result of the COVID-19 pandemic. More recently, we have seen user growth and engagement trending towards pre-pandemic levels as various preventative measures such as shelter-in-place restrictions have been relaxed in certain regions.
- At the same time, we experienced a reduction in the demand for advertising, as well as a related decline in the pricing of our ads, in the second quarter of 2020. The demand for and pricing of our advertising services, as well as our overall results of operations, may be materially and adversely impacted by the pandemic for the duration of 2020 or longer, and we are unable to predict the duration or degree of such impact with any certainty.
- In addition, we expect that future advertising revenue growth will continue to be adversely affected by limitations on our ad targeting and measurement tools arising from changes to the regulatory environment and third-party mobile operating systems and browsers. We also intend to continue to invest in our business based on our company priorities, and we anticipate that additional investments in our data center capacity, network infrastructure, and office facilities, as well as scaling our headcount to support our growth and certain initiatives related to the COVID-19 pandemic, will continue to drive expense growth in 2020.
- During the second quarter of 2020, worldwide ARPP was $6.10, a decrease of 2% from the second quarter of 2019.

## RESULTS OF OPERATIONS

| FACTOR | VARIATION YOY | DRIVER |
|---|---|---|
| Revenue | + 11% | • Advertising +10% \| Payments +40%<br>• The increase was almost entirely due to an increase in advertising revenue as a result of an increase in the number of ads delivered, partially offset by a decrease in the average price per ad.<br>• # of ads increase 40%<br>  ◦ The increase in the ads delivered was driven by an increase in the number and frequency of ads displayed across our products, and an increase in users and their engagement, particularly with Facebook mobile News Feed.<br>• Avg price of ad -21%<br>  ◦ The decrease in average price per ad was primarily driven by a decrease in advertising demand globally due to the COVID-19 pandemic beginning in the first quarter of 2020.<br>  ◦ To a lesser extent, the decrease in average price per ad was also caused by an increasing proportion of the number of ads delivered as Stories ads and in geographies that monetize at lower rates.<br>• In addition, advertisers based in the Asia-Pacific region benefited from an earlier recovery from COVID-19 in that region, which contributed to a stronger growth rate in our advertising revenue by advertiser location in Asia-Pacific compared to other regions during the second quarter of 2020, as compared to the same period in 2019. |

| | | |
|---|---|---|
| | | • In the near-term, we anticipate that future advertising revenue growth will be determined primarily by the extent to which the COVID-19 pandemic and related economic slowdown result in a decrease in advertising demand, as well as the extent to which changes to the regulatory environment and third-party mobile operating systems and browsers result in limitations on our ad targeting and measurement tools.<br>• Strengthening of US dollar had unfavorable impact on revenue. |
| Cost of Revenue | +16% | The increases in both periods were mostly due to increases in operational expenses related to our data centers and technical infrastructure, higher costs associated with partnership agreements, including traffic acquisition and content acquisition costs, and higher cost of consumer hardware devices. |
| R&D | +35% | Payroll \| +41% headcount |
| Marketing & Sales | +18% | The increases were primarily driven by increases in marketing expenses and payroll and benefits expenses, which were partially offset by decreases in travel-related expenses due to the COVID-19 pandemic. Our payroll and benefits expenses increased as a result of a 22% increase in employee headcount from June 30, 2019 to June 30, 2020 in our marketing and sales functions. |
| General & Admin | -51% | • The decreases were mostly due to the legal accruals related to the FTC settlement, of which $2.0 billion was recorded in the second quarter of 2019 and a total of $5.0 billion was recorded during the first six months of 2019.<br>• Excluding the FTC settlement accruals, the increases in general and administrative expenses in the three and six months ended June 30, 2020 were mostly due to increases in other legal-related costs, payroll and benefits expenses as a result of a 31% increase in employee headcount from June 30, 2019 to June 30, 2020 in our general and administrative functions, and higher professional services costs. |
| Taxes | -57% | • The decreases in both periods were primarily due to the additional tax expense in the second quarter of 2019 from the Altera Ninth Circuit Opinion<br>• Our effective tax rates in the three and six months ended June 30, 2020 decreased compared to the same periods in 2019, mostly due to the 2019 Altera Ninth Circuit Opinion and the 2019 legal accrual related to the FTC settlement that is not expected to be tax-deductible.<br>• Effective tax rate decreased to 16% from 46% the prior year. |

## LIQUIDITY & CAPITAL RESOURCES

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  - net operating loss carryforward was $9.62 billion
  - $389 million of federal tax credit carryforward
  - As of June 30, 2020, $13.57 billion of the $58.24 billion in cash and cash equivalents and marketable securities was held by our foreign subsidiaries.
  - In July 2019, we entered into a settlement and modified consent order to resolve the inquiry of the FTC into our platform and user data practices, which was approved by the federal court and took effect in April 2020. We paid the penalty of $5.0 billion in April 2020 upon the effectiveness of the modified consent order.
- On April 21, 2020, we entered into a definitive agreement to invest in Jio Platforms Limited, a subsidiary of Reliance Industries Limited. The transaction closed on July 7, 2020, and we paid approximately $5.8 billion at the then-current exchange rate.