

— ANONYMOUS WHISTLEBLOWER DISCLOSURE —

[REDACTED]

SEC Office of the Whistleblower
Via Online Portal & Fax

Re: Supplemental Disclosure of Securities Law Violations by Facebook, Inc. (NASDAQ: FB), SEC TCR # [REDACTED]

For years, Facebook has misled investors and advertisers about shrinking user base in important demographics, declining content production, and the true number of recipients of “Reach & Frequency” advertising

I. Introduction

To the SEC Office of the Whistleblower:

1. The instant letter is one of multiple disclosures related to the above-captioned matter. Our anonymous client is disclosing original evidence showing that **Facebook, Inc. (NASDAQ: FB)** has, for years past and ongoing, violated U.S. securities laws by making **material misrepresentations and omissions in statements to investors and prospective investors**, including, *inter alia*, through filings with the SEC, testimony to Congress, online statements and media stories.
2. **Summary.** Facebook’s stock valuation is based almost entirely on predictions of future advertising revenue. But for years, Facebook has misrepresented core metrics to investors and advertisers including the amount of content produced on its platforms and growth in individual users (especially in high-value demographics). Further, because of how advertising algorithms did not properly account for “Single Users with Multiple Accounts” (SUMA), Facebook has consistently misrepresented to advertisers the true number of individual users served with “Reach and Frequency” (R&F) advertising, thereby systematically overcharging advertisers, and

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fraudulently collecting significant revenue. Cumulatively, Facebook's misconduct resulted in investors significantly overvaluing the corporation.

II. Facebook Made Misstatements and Omissions in its SEC Filings and Public Statements

3. **The foundation of Facebook's advertising revenue is its vast user base — about which Facebook has repeatedly boasted to investors.** For example, in its 10-Q (Q2, July 2021), Facebook stated:

- *“Facebook daily active users (DAUs) – DAUs were 1.91 billion on average for June 2021, an increase of 7% year-over-year.*
- *Facebook monthly active users (MAUs) – MAUs were 2.90 billion as of June 30, 2021, an increase of 7% year-over-year.*
- *Family daily active people (DAP) – DAP was 2.76 billion on average for June 2021, an increase of 12% year-over-year.*
- *Family monthly active people (MAP) – MAP was 3.51 billion as of June 30, 2021, an increase of 12% year-over-year.”¹*

4. These “DAUs” and “MAUs” along with Facebook’s “growth” were further emphasized in the Q2 2021 quarterly earnings call with Facebook’s executives.²

5. Likewise, in its 10-K (January 2021), Facebook represented:

“Worldwide DAUs increased 11% to 1.84 billion on average during December 2020 from 1.66 billion during December 2019. . . . As of December 31, 2020, we had 2.80 billion MAUs, an increase of 12% from December 31, 2019.”³
(emphasis added)

6. To provide an idea about the revenue at stake, the FTC’s amended complaint against Facebook summarized:

“Advertisers now pay . . . approximately \$84 billion in 2020 [] to display their ads to specific sets of Facebook [] and Instagram users.” Facebook earns

¹ https://s21.q4cdn.com/399680738/files/doc_financials/2021/q2/FB-06.30.2021-Exhibit-99.1_final.pdf. Emphasis is added throughout this disclosure in bold/underlined text.

² https://s21.q4cdn.com/399680738/files/doc_financials/2021/q2/FB-Q2-2021-Earnings-Call-Transcript.pdf.

³ <https://sec.report/Document/0001326801-21-000014/>.

“substantially all of [its] revenue from selling advertising placements to marketers.”⁴

- 7. Simultaneously, Facebook has failed to disclose internal data showing a contraction of the user base in important demographics, including American teenagers and young adults. The company has also hidden the extent to which content production per user has been in long-term decline.**
- 8. Duplicate Accounts Are a Significant Concern.** Facebook knows that “Single Users with Multiple Accounts” (SUMA), or duplicate accounts, are a significant issue. In that 10-K, Facebook made certain disclaimers about “duplicate” accounts:

“We regularly evaluate our Facebook metrics to estimate the number of ‘duplicate’ and ‘false’ accounts among our MAUs . . . In the fourth quarter of 2020, we estimated that duplicate accounts may have represented approximately 11% of our worldwide MAUs. We believe the percentage of duplicate accounts is meaningfully higher in developing markets such as the Philippines and Vietnam, as compared to more developed markets. In the fourth quarter of 2020, we estimated that false accounts may have represented approximately 5% of our worldwide MAUs . . . We intend to disclose our estimates of the number of duplicate and false accounts among our MAUs on an annual basis.”⁵ (emphasis added)

- 9.** The follows years of similar representations. For example, during a 2018 (Q2) earnings call, Mark Zuckerberg summarized:

“Facebook now has more than 2.2 billion monthly actives, with almost 1.5 billion using it every day. For the first time today, we're also releasing how many people use at least one of our apps -- Facebook, WhatsApp, Instagram, or Messenger -- and that's 2.5 billion people each month. This number better reflects our community for a couple of reasons. First, it refers to individual people rather than active accounts, so it excludes when people have multiple active accounts on a single app. And second, it reflects that many people use more than one of our services.”⁶ (emphasis added)

- 10.** In the same call, CFO Dave Wehner claimed:

⁴ https://www.ftc.gov/system/files/documents/cases/ecf_75-1_ftc_v_facebook_public_redacted_fac.pdf, paras. 46, 52.

⁵ <https://sec.report/Document/0001326801-21-000014/>.

⁶ https://s21.q4cdn.com/399680738/files/doc_financials/2018/Q2/Q218-earnings-call-transcript.pdf.

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the Facebook MAU number does count multiple accounts for a single user when such accounts exist, and we estimate those represent approximately 10% of our Facebook MAUs as previously disclosed in the limitation of key metrics section in our SEC filings.”⁷ (emphasis added)

11. For some demographics, Facebook has claimed to reach more users with advertisements than the U.S. Census says exist in the United States.⁸

12. Facebook Made Misrepresentations to Advertisers in Setting Ad Limits.

13. For example, Facebook states:

“Reach and frequency buying allows you to book campaigns in advance and predict how those campaigns will perform before they run. The reach and frequency buying type is for advertisers who want to: Reach an audience of more than 200,000 people. Target a whole country, not a local area. . . .”⁹

III. Facebook has misled investors about declines in its user base and content production.

14. Internal documents show that youth and teens, a crucial demographic for advertisers, are **deliberately targeted for Instagram in order to bring their family members onto Facebook platforms:**

***“Teens shape the household’s perception of Instagram.** Insight #1: *Teens were often the reason other household members joined Instagram . . . One member within a household has the power to influence acquisition and retention for others. Family-first acquisition strategies are proven effective (e.g. TikTok) and **warrant exploration on IG [Instagram].**”¹⁰**

⁷https://s21.q4cdn.com/399680738/files/doc_financials/2018/Q2/Q218-earnings-call-transcript.pdf.

⁸<https://www.adweek.com/performance-marketing/facebook-claims-it-reaches-more-people-than-the-u-s-census-data-say-s-exist/amp/>; see also <https://www.ft.com/content/98454222-fef1-11e9-b7bc-f3fa4e77dd47>.

⁹ <https://www.facebook.com/business/help/525949344256092?id=842420845959022>;

<https://www.facebook.com/business/m/one-sheeters/ad-limits>;

<https://www.facebook.com/business/help/1461336133922536?id=842420845959022>;

<https://www.facebook.com/business/help/251123081984768?id=842420845959022>.

¹⁰ [REDACTED] *Teens shape household perceptions of Instagram*, p. 1

“Teens and young adults represent a sizable portion of our established markets and growth markets.”¹¹

15. Facebook is inflating it’s growth numbers by not disclosing that a higher fraction of teen accounts are “Same User with Multiple Accounts” (SUMAs), or duplicate accounts. In terms of teen users, records indicate:

“Over 15% of new teen accounts are existing users creating a SUMA child [secondary] account.”¹²

16. **Internal records confirm how teens and young adults in more developed economies are using the platform less.**

“Facebook’s teen and young adult DAU [Daily Active Users] has been in decline since 2012/2013. Data science findings indicate that only users 25 and above are increasing their use of Facebook. The Teen DAU has plateaued and the Young Adult (18-24) DAU continues to decline.”¹³

“The United States is among the first countries where we observed teen MAP [Monthly Active People] decline, starting in 2012 . . . teens have been taking longer to adopt Facebook . . . One immediately concerning takeaway . . . is a flattening growth trends for cohorts below 18 years . . . current US teens have followed a fundamentally different growth pattern than previous cohorts. This is important because it casts doubt on our ability to draw conclusions about the growth trajectory of our youngest users from the patterns we’ve observed in the past . . . [younger] cohorts . . . have instead joined Facebook at a relatively slow rate.”¹⁴

*“YA [Young Adults] gravitate toward public figures and emerging creators . . . PF [Public Figures] and Creators lack a reason to be on FB [Facebook] . . . **YA spend less time, produce less, and send fewer messages on FB** compared to 30+ . . . Competition growth also inhibits YA’s engagement on FB . . YA struggle to identify the*

¹¹ [REDACTED] Why teens and young adults choose Instagram, p. 29.

¹² [REDACTED] SUMAs as Account Reset - increasing engagement through creating a better account, pp. 2, 4, 15.

¹³ [REDACTED] Why teens and young adults choose Instagram, p. 6.

¹⁴ [REDACTED] – Will Teens Eventually Adopt Facebook, p. 1-5, 9, 17-18.

*primary value prop for FB YA want uplifting and motivating content, yet **see FB content as negative, fake, and boring.***¹⁵

“Teens’ DAU have declined -13% from 2019-2021 and is projected to drive US DAU decline with -45% from 2021-2023. In comparison, young adults have declined -2% from 2019-2021 and the projection for 2021-2023 is -4% . . . [b]esides DAU decline, sessions, time spent, production are all much worse among teens than young adults (worse baseline, worse decline rate).”¹⁶

“Engagement is declining for teens in most Western, and several non-Western countries”¹⁷

“Engagement has been declining sharply since January, although seasonal trends make it difficult to define specifically when the decline began”¹⁸

“Comments / DAP is a reasonable metric to use to understand the decline [in teen engagement] top understand the decline because: . . . its decline has been particularly severe”¹⁹

“Teen comment decline can be mostly attributed to declines in consumption and content quality”²⁰

“Consumption and content quality declines for teens may be the result of less teen inventory” and “US teen teen-friendly inventory decreased by 19%”²¹

17. Facebook’s internal records show that comments / DAP in the US declined 23.3% for teens and -5.3% for adults in the week of 5/4/2017 compared with the week of 2/23/2017.²²

18. An internal summary of findings regarding teens’ engagement with Facebook shows:

¹⁵ [REDACTED] *Young Adults X FAST Research*, p. 1, 9-10, 28, 38.
¹⁶ [REDACTED] *Future of YA*, p. 5.
¹⁷ [REDACTED] – 2017 Teen Engagement Decline Update, p. 3.
¹⁸ [REDACTED] – 2017 Teen Engagement Decline Update, p. 3.
¹⁹ [REDACTED] – 2017 Teen Engagement Decline Update, p. 8.
²⁰ [REDACTED] – 2017 Teen Engagement Decline Update, p. 16.
²¹ [REDACTED] – 2017 Teen Engagement Decline Update, p. 21.
²² [REDACTED] – 2017 Teen Engagement Decline Update, p. 11.

There is a “[w]eakness in consumption and production in US.”²³

“A similar trend appears to be occurring for adults, although it is less severe”²⁴

“Adult declines in the US and [Brazil] are almost entirely driven by reduced consumption . . . [and] [i]n [Italy], content quality is the leading driver of the decline for adults followed by consumption”²⁵

The decrease in content production trend also extends to young adults (YA), as this key demographic is not producing as much content:

“Young Adults (YA) are less engaged on Facebook than older adults, presenting a significant risk to FB App’s top line MAP and DAP LTV.”²⁶

***“YA are less active and less engaged** on Facebook. They comprise 27% of monthly US FB users but compared to adults 30+, they spend less time on the platform and produce and interact less with content”²⁷ (emphasis added)*

19. An internal summary of findings regarding young adults’ engagement with Facebook shows:

Facebook has seen a steady decline in Original Groups Post Sessions (OGPS) within the past two years in key markets other than the US:

“The OGPS/DAP decline comes mostly Large Groups, Private (Visible) Groups, and from declines in key markets including the Middle East, Africa, and Asia Pacific (this is a persistent trend seen in prior analyses).”²⁸

“The OGPS/DAP decline seems to stem from increases in passive DAP users who tend to OGPS less, Reshare more, Like more, and Comment . . . The trend is the same among new and old cohorts.”²⁹

²³ [REDACTED] March 2021 – state of teens and young adults on FB and IG, p.4.

²⁴ [REDACTED] – 2017 Teen Engagement Decline Update, p.3.

²⁵ [REDACTED] – 2017 Teen Engagement Decline Update, p. 16.

²⁶ [REDACTED] – Young Adults FB Strategy (Nov 2020), p.1.

²⁷ [REDACTED] – Young Adults FB Strategy (Nov 2020), p.3.

²⁸ [REDACTED] What we know about the continued decline in OGPS (2/20/20), p.2.

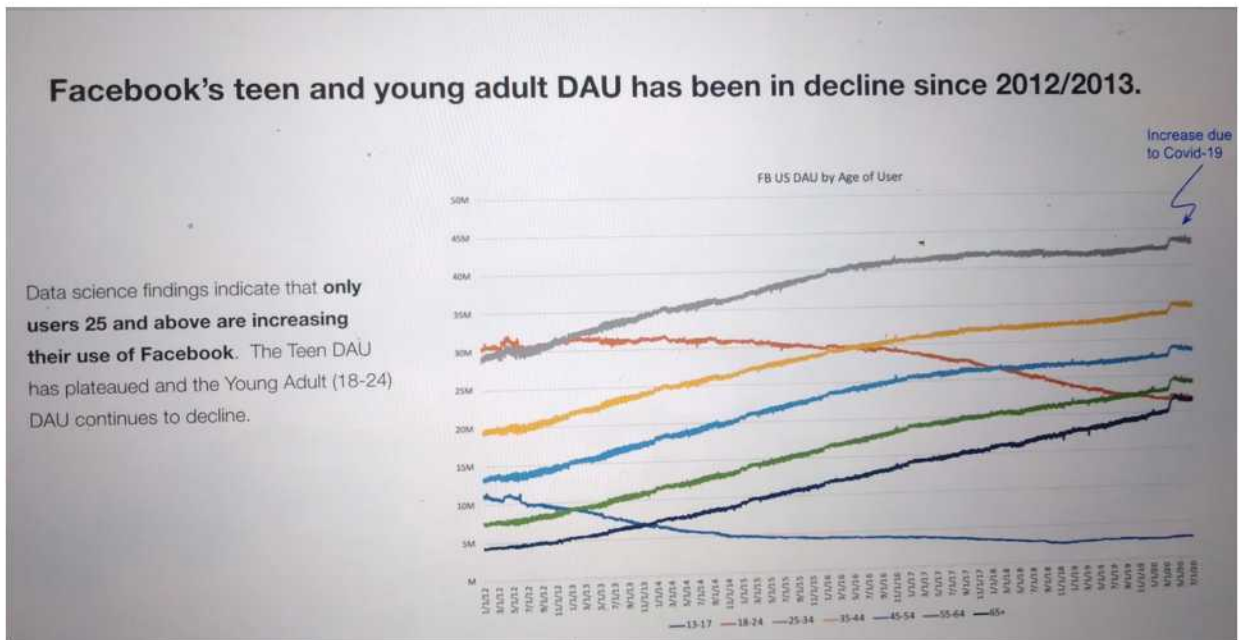
²⁹ [REDACTED] What we know about the continued decline in OGPS (2/20/20), p.2.

“Both DAU and engagement are still trending down in Western Europe . . . [t]he trend is still concerning as DAU and engagement have all dropped below H1 forecast . . . it is likely that the trend will continue to decline after the seasonal bump.”³⁰

“In WE [Western Europe], both DAU [daily active users] and engagement trends started deviating from the forecast since 1/27. Two after that, we see an additional step change down on 2/19 for both DAU and engagement which is more worrisome.”³¹

The deviation since 1/27 seems to be across all WE countries . . . ”³²

20. During Covid, every cohort’s use of Facebook increased, except for those 23 and under, which continued to decline:



21. Internal records state that such declines in engagement and production and the deviations from its usage and engagement forecast are not solely caused by the Covid-19 pandemic:

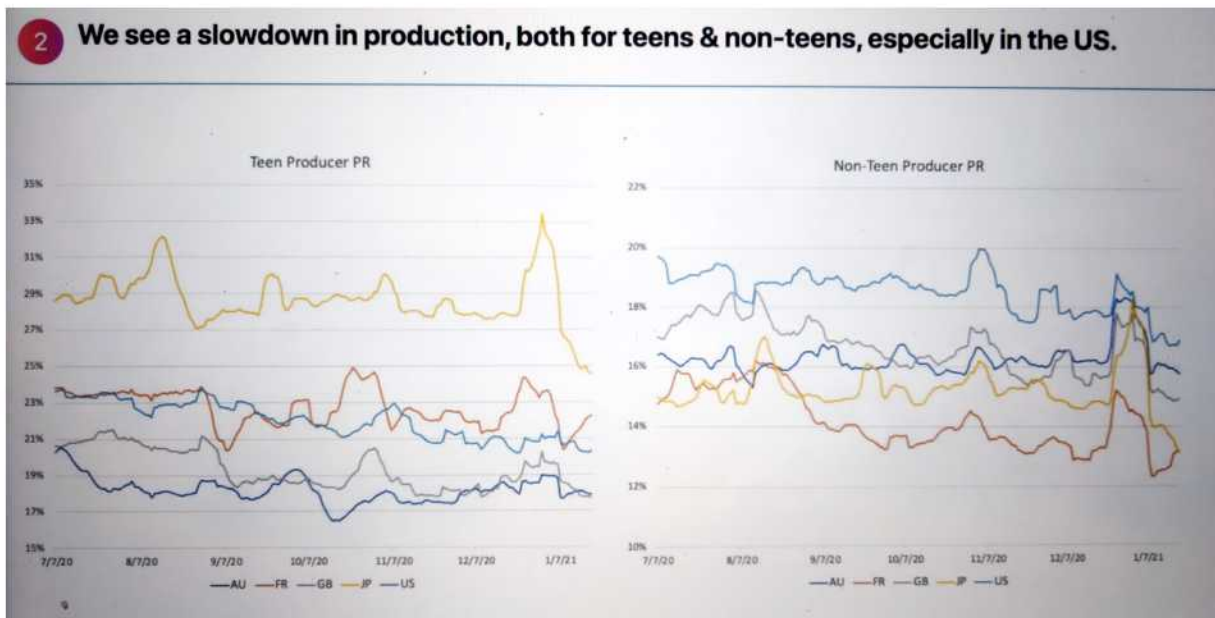
³⁰ [REDACTED] Over time usage data (3/9/21), p.1.
³¹ [REDACTED] Over time usage data (3/9/21), p.1.
³² [REDACTED] Over time usage data (3/9/21), p.1.

“The 1/27 declines seem to be a mixed effect from COVID deceleration + seasonality, but the step changes on 2/19 cannot be fully explained by that.”³³

22. And, those teens that remain on the platform are producing less content.

*“FB [Facebook] App’s large, irrelevant network is a driver of core challenges on FB including why **YA [young adults] don’t create.**”³⁴*

23. The data are stark. One internal study³⁵ showed:



IV. Facebook’s mishandling of duplicate accounts constitutes extensive fraud against its advertisers, and misrepresentations to investors

24. **Background on R&F advertising.** Facebook offers “Reach and Frequency” or “R&F” campaigns to allow advertisers to set the reach (number of users) and frequency (how often users see an ad) for a set price range. It is important to advertisers to control the number of times an individual sees an ad, because

³³ [REDACTED] Over time usage data (3/9/21), p.1.

³⁴ [REDACTED] Young Adults X FAST Research, p. 31.

³⁵ [REDACTED] March 2021 - State of Teens and Young Adults on FB and IG, p. 27

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incremental ad exposures do not add more value beyond a certain point (ex. seeing an ad 30 times likely doesn't have a meaningful effect above seeing it 20 times, but would cost 50% more). Advertisers who target a very narrow audience are at higher risk of over exposing each individual, because few potential people exist to target.

25. Although Facebook has sophisticated algorithms to assess the existence of SUMAs / duplicate accounts, Facebook is well aware that its failure to include SUMA duplicate accounts distorts its Reach & Frequency (R&F) advertising models:

"Previous analysis have shown that including SUMA modeling into audience sizes would reduce overestimation of population in age groups for our top 30 ad markets by 50% when included by itself and by 63% when included in conjunction with age modeling"³⁶

26. By delivering too many ads to users that the advertisers did not want to pay for, **Facebook overcharged advertisers on a vast scale:**

"But wont' this cause the R&F [reach and frequency] to violate their contract? If the ads is targeted to 1M accounts with a guarantee of 90%, and we delivered to 900k accounts but only 800k users [due to SUMA], wont' this make R&F [reach and frequency] pay penalty if we report 800k as coverage? . . ."³⁷

27. For example, Facebook records show that if duplicate SUMA accounts were properly handled, there would be "audience size reduction" for these types of R&F campaigns as follows:

". . . 18% of current R&F revenue using Broad targeting (6% of overall R&F revenue) will see a decrease in audience sizes larger than 10%. A majority of R&F campaigns using Broad targeting will actually see an audience shrinkage in the 5-8% range."³⁸

"We find that, after including SUMA accounting in audience size calculation, 82% of current R&F revenue would see an audience size reduction less than 10%, 95% a reduction less than 16%. In fact we find

³⁶ [REDACTED] Impact of SUMA on Estimated audience and reach, p. 3.

³⁷ [REDACTED] Impact of SUMA on Estimated audience and reach, p. 10.

³⁸ [REDACTED] Impact of SUMA on Estimated audience and reach, p. 1.

that about 50% of current R&F revenue using broad targeting (17% of overall R&F revenue) will see an audience size reduction around 6-7%.”³⁹

28. Facebook’s lack of regulation of SUMAs has exposed it to brand liability - internal records likewise outline the use of SUMAs in international political discourse. An internal presentation noted a party official for India’s BJP used SUMA’s to promote pro-Hindi messaging:

“[A] BJP IT Cell worker [shared] coordinated messaging instructions to supporters [with a] copy-paste campaign...targeting politically-sensitive tags . . . Fanout from [the post]: use of SUMA and 103 suspicious entities across IN & BD ”⁴⁰

V. Facebook Admits these are material issues.

29. In a recent 10-K, Facebook indicated:

“In the event that 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.”⁴¹

“We may not be able to continue to successfully maintain or grow usage of and engagement with mobile and web applications that integrate with Facebook and our other products.”⁴²

“Any number of factors can negatively affect user retention growth, and engagement, including if: . . . 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 obtain or attract engaging third-party content.”⁴³

³⁹ ██████ Impact of SUMA on Estimated audience and reach, p. 5; see also <https://www.facebook.com/business/help/885674161555708?id=842420845959022>.

⁴⁰ ██████ Lotus Mahal, p.6.

⁴¹ <https://sec.report/Document/0001326801-21-000014/>.

⁴² <https://sec.report/Document/0001326801-21-000014/>.

⁴³ <https://sec.report/Document/0001326801-21-000014/>.

“If we fail to retain existing users or add new users, or if our users decrease their level of engagement with our products, our revenue, financial results, and business may be significantly harmed. The size of our user base and our users' level of engagement are critical to our success. Our financial performance has been and will continue to be significantly determined by our success in adding, retaining, and engaging active users of our products, particularly for Facebook and Instagram.” And “Real or perceived inaccuracies in our community and other metrics may harm our reputation and negatively affect our business.”⁴⁴

30. Role for the SEC. The SEC is charged with enforcing the laws that protect investors in public companies like Facebook. Facebook’s investors care about these misrepresentations and omissions about duplicate accounts and corresponding user numbers/growth for two reasons. First, if advertisers were aware of the discrepancies, they would spend less on ads, leading to lower advertising revenue and lower profits. Second, some investors simply will not want to invest in a company that does not have the growth (e.g., daily and monthly active users) that is represented and then engages in misstatements and omissions on this topic.

31. Whistleblower Aid is a non-profit legal organization that helps workers report their concerns about violations of the law safely, lawfully, and responsibly. We respectfully request the SEC’s assistance ensuring that our client never faces retaliation.

32. On information and belief, none of the documents enclosed here constitute attorney-client communications, were obtained during a meeting with an attorney, or otherwise indicate that they are in any way privileged.

33. We plan to continue supplementing this disclosure with additional information and evidence. Our client would be happy to meet with investigators at your convenience. Please feel free to contact us using the information below.

34. We are representing an anonymous whistleblower who is making the above disclosures solely for reporting the suspected violation of laws as outlined.

⁴⁴<https://sec.report/Document/0001326801-21-000014/>.

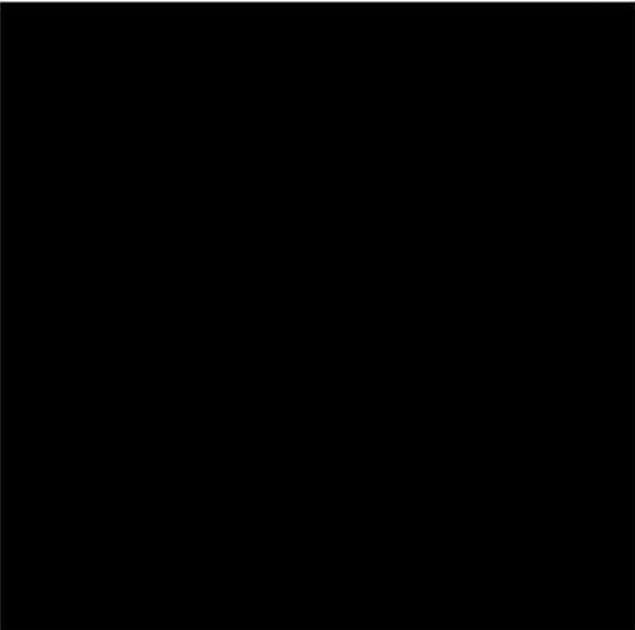
Sincerely,



John N. Tye, Attorney at Law
Chief Disclosure Officer



Andrew Bakaj, Attorney at Law
Of Counsel



Enclosures: Internal Facebook documents including —

- ████ Lotus Mahal;
- ████ David Gilson – Will Teens Eventually Adopt Facebook?
- ████ Actor Accountability GNN predictions;
- ████ SUMAs as Account Reset - increasing engagement through creating a better account;
- ████ SUMAs and impact on civic space;
- ████ MAP likely inflated for Mature Accounts.pdf;
- ████ Teen SUMA usage;
- ████ Update on Unwanted SUMA Problem;
- ████ Discounting Logged out People from SUMA 2018;
- ████ Understanding Headers Impact on SUMA;
- ████ Teens shape household perceptions of Instagram;
- ████ Teen girls body image and usage of Instagram
- ████ What we know about the continued decline in OGPS;
- ████ Young Adults X FAST Research;
- ████ Future of Young Adults and FAST - GIANT Note;
- ████ 2017 Teen Engagement Decline Update;
- ████ Over time usage data;
- ████ State of Teens, June 2018;
- ████ March 2021 - State of Teens and Young Adults on FB and IG ;
- ████ Young Adults FB Strategy (Nov 2020);
- ████ Why FB made time spent a topline metric for 2019;
- ████ teen barriers to story production;
- ████ Why teens and young adults choose Insta