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XII. Jury Demand284

1 Plaintiff Amalgamated Bank, as Trustee for the Long View LargeCap 1000 Growth Index
2 Fund, LongView Quantitative LargeCap Fund, and LongView Quant LargeCap Equity VEBA Fund
3 (“Amalgamated”), and Public Employees’ Retirement System of Mississippi (“Mississippi,” and,
4 together with Amalgamated, “Lead Plaintiffs”), by and through their respective undersigned
5 attorneys, on behalf of themselves and the Class (as defined below) of investors in the publicly-
6 traded common stock of Facebook, Inc. (“Facebook” or the “Company”), allege the following in
7 support of their claims for violation of the Securities Exchange Act of 1934 (“1934 Act”) and Rule
8 10b-5 promulgated thereunder against Facebook and certain of its officers and directors.¹

9 **I. Introduction**

10 1. This securities class action arises from defendants’ materially false and misleading
11 statements and omissions concerning Facebook’s privacy and data protection practices and the
12 impact of defendants’ misconduct on Facebook’s business and financial condition. It is brought on
13 behalf of all persons who purchased Facebook common stock between February 3, 2017 and July 25,
14 2018, inclusive (the “Class Period”), against Facebook and three of its officers and/or directors:
15 Chief Executive Officer (“CEO”) Mark Zuckerberg (“Zuckerberg”), Chief Operating Officer
16 (“COO”) Sheryl K. Sandberg (“Sandberg”) and Chief Financial Officer (“CFO”) David M. Wehner
17 (“Wehner”) (collectively, “defendants”). When the full truth concerning defendants’
18 misrepresentations was revealed, including misconduct that Zuckerberg has admitted was a “major
19 breach of trust,” Facebook’s stock price declined precipitously, causing the loss of billions of dollars
20 in shareholder value.²

21
22 _____
23 ¹ This Third Amended Complaint is filed pursuant to the Court’s September 16, 2020 Order (ECF
24 No. 141). In amending their complaint, Lead Plaintiffs reserve all rights and allegations under their
25 prior complaint. Nothing herein is intended to waive, in whole or in part, any previously asserted
26 claims, arguments or allegations. Except as to allegations concerning themselves and their
27 transactions in Facebook stock, Lead Plaintiffs’ allegations are based on an investigation conducted
28 by Lead Counsel, including: (i) review of the Company’s filings with the SEC and other government
agencies; (ii) information on the Company’s website and in media and analyst reports and other
public statements; and (iii) information from other sources believed to be reliable, as described
herein. Lead Plaintiffs believe that substantial additional evidentiary support will exist for the
allegations set forth herein after a reasonable opportunity for discovery.

² F8 2018 Developer Conference Tr. at 9 (May 1, 2018).

1 2. Facebook derives virtually all of its revenue from monetizing the personal
2 information – data – that it collects from the users of its social media platforms. It does so through
3 the sale of “targeted advertising” that is based on Facebook users’ personal information, including
4 their online activities, the pages they visit, the posts they “liked,” and the people they “friended.”
5 While Facebook users generally understood that the Company was using their personal data in order
6 to tailor the ads that they would see, they trusted Facebook to keep that personal data private, not to
7 share it directly with third parties, without informed consent, and to act in accordance with
8 defendants’ public statements regarding Facebook’s protection of user privacy and user control over
9 data. Defendants frequently acknowledged that maintaining Facebook’s users’ trust was critical to
10 the Company’s continued growth and financial success.

11 3. Unbeknownst to users – and investors – their trust in Facebook was misplaced. In
12 contrast to defendants’ public statements, Facebook was deliberately sharing user data with hundreds
13 of third parties, including third-party app developers and multi-national corporations such as Apple,
14 Amazon, Blackberry, Microsoft and Samsung, who had been “whitelisted” for access to users’ data.
15 The entities Facebook whitelisted also included known or suspected national security threats, such as
16 Huawei (a Chinese technology company with deep ties to China’s government) and Mail.Ru Group
17 (a Kremlin-connected technology conglomerate), as well as known privacy threats, such as apps
18 created by Global Science Research (“GSR”). The facts show that Cambridge Analytica Ltd.
19 (“Cambridge Analytica”) was also whitelisted for continued access to users’ friend data even after
20 defendants publicly represented this access had been shut down. As another court has already found,
21 Facebook did not “come close to disclosing [this] massive information-sharing program,” and users
22 did not consent to this use of their data. *In re Facebook, Inc. Consumer Privacy User Profile Litig.*,
23 2019 WL 4261048, at *14 (N.D. Cal. Sept. 9, 2019) (the “Consumer Case”).

24 4. During the Class Period, defendants knew or willfully blinded themselves to the fact
25 that sensitive user information for approximately 87 million Facebook users had been provided to a
26 third-party political consulting firm called Cambridge Analytica, and remained at risk of being used
27 and abused. Indeed, the data was misused by Cambridge Analytica to build psychological profiles of
28

1 Facebook users that became the basis for political advertising designed to trigger some of the worst
2 characteristics in people, such as paranoia and racial bias.

3 5. On December 11, 2015, *The Guardian* reported that Cambridge Analytica may have
4 obtained Facebook user data for use in political campaigns.³ Defendants responded to the article
5 with feigned surprise and assured users, investors, regulators and the public that they would
6 “require” any compromised data to be deleted, that violators would be punished, and that Facebook
7 would swiftly halt any misuse of its users’ data. For example, a Company spokesman told *The*
8 *Guardian*: “[W]e will take swift action against companies that [violate Facebook’s privacy policies],
9 including banning those companies from Facebook and requiring them to destroy all improperly
10 collected data.” Facebook would use variations of this statement over and over thereafter, including
11 during the Class Period, whenever questions were raised about users’ control over their data or
12 Facebook’s ability to protect its users’ data.

13 6. Behind the scenes, however, Facebook’s primary concern was minimizing the public
14 relations fallout from the scandal. Facebook did not publicly confirm that Cambridge Analytica had
15 obtained user data (to the contrary, as discussed below, during the Class Period Facebook was still
16 pointing to statements on Cambridge Analytica’s website stating that Cambridge Analytica did *not*
17 use Facebook data).⁴ Nor did defendants reveal that just before *The Guardian* story broke, Facebook
18 had hired the co-founder of GSR, the company that had funneled the user data to Cambridge
19 Analytica, and put him to work at Facebook’s Menlo Park headquarters, where he remained
20 employed throughout the Class Period.

21 7. In the wake of *The Guardian* article, Facebook exchanged a few emails with
22 Cambridge Analytica during the December 2015-January 2016 time period about purloined data,
23 which Facebook would later call a “confirmation” or “certification” of deletion. Yet, on June 11,
24 2016, Facebook learned from GSR that Cambridge Analytica’s January 2016 “certification” was a

25
26 _____
27 ³ Harry Davies, *Ted Cruz using firm that harvested data on millions of unwitting Facebook users*,
Guardian (Dec. 11, 2015) (“Dec. 2015 *Guardian* article”).

28 ⁴ All emphasis added throughout unless otherwise noted.

1 fraud and quickly moved to cover up the fact that Cambridge Analytica was still in possession of the
2 data.

3 8. Facebook did not notify the public or government regulators of the lost data, or alert
4 the users whose data had been compromised. In addition, because the data provided to Cambridge
5 Analytica was in a format that was easily shared with others, defendants knew that the
6 representations of GSR and Cambridge Analytica, even if reliable (and they were not), were
7 insufficient to assure that the user data was not still at risk of being misused. Zuckerberg later
8 acknowledged his responsibility for these failures, admitting “we didn’t do enough,” which was a
9 “huge mistake [and] [i]t was my mistake.”⁵

10 9. Since this action was commenced, additional facts have been revealed demonstrating
11 that defendants could not reasonably rely upon the bare assertions of GSR and Cambridge Analytica.
12 Newly uncovered documents show that as early as September 2015, Facebook personnel were
13 referring to Cambridge Analytica as “sketchy (to say the least),” and that in 2015 Facebook
14 determined that both GSR and Cambridge Analytica had violated Facebook’s terms of use. It has
15 also been revealed that Facebook learned that both GSR and Cambridge Analytica had repeatedly
16 lied to Facebook regarding the scope and type of user data they possessed. And internally, Facebook
17 ignored multiple red flags revealing that the Cambridge Analytica data was still being used by
18 Cambridge Analytica itself to develop political advertisements that it placed on Facebook, leaving
19 no doubt that the data had not been deleted and the certifications to the contrary were incorrect. Yet,
20 by summer 2016, Facebook was set to make \$75-\$85 million in advertising revenue from Cambridge
21 Analytica, which was Donald Trump’s (“Trump”) campaign ad buyer on Facebook at the time. Far
22 from requiring any (non-fraudulent) “certifications” of deletion during this time, Facebook
23 “embedded” its own employees to work, literally, inside the Cambridge Analytica data center that
24 was running the Trump campaign’s digital operations in San Antonio, Texas. And Facebook even
25 gave Cambridge Analytica a promotion – from being a “sketchy” company (as of December 2015) to
26 being a “Preferred Marketing Developer” (as of summer 2016). Such are the privileges conferred

27 ⁵ Toby Shapshak, ‘It Was My Mistake’ Zuckerberg Admits, While Facebook ‘Didn’t Do Enough
28 To Prevent Abuse,’ *Forbes* (Apr. 4, 2018).

1 upon companies pursuant to Zuckerberg’s and Sandberg’s selective policy enforcement model – a
2 type of coin-operated policy enforcement model that slows to inoperable speeds so long as the policy
3 violator keeps making deposits above \$250,000. Cambridge Analytica’s \$75-\$85 million in ad buys
4 exceeded that threshold by several orders of magnitude.

5 10. Knowing Cambridge Analytica continued to violate Facebook’s (publicly stated)
6 privacy policies while working to support the 2016 Trump campaign, and knowing that Cambridge
7 Analytica had given Facebook a fraudulent deletion “certification” *so that* it could continue violating
8 Facebook’s (publicly stated) privacy policies, Facebook repeatedly went on the record to assure
9 users and investors that Facebook’s 17-month-long investigation into Cambridge Analytica had not
10 uncovered a scintilla of wrongdoing:

- 11 • Facebook went on the record, on March 4, 2017, to publish false results of its
12 Cambridge Analytica investigation, in statements to *The Guardian*, which reported:
13 “A Facebook spokesperson said: ‘Our investigation to date has **not uncovered**
14 **anything that suggests** wrongdoing with respect to Cambridge Analytica’s work on
15 the Leave and Trump campaigns.’”
- 16 • Facebook went on the record, on March 5, 2017, to repeat the same false results of its
17 Cambridge Analytica investigation, in statements to *The Daily Mail*, which reported
18 this quote from a Facebook spokesperson: “‘Our investigation to date has **not**
19 **uncovered anything that suggests** wrongdoing with respect to Cambridge
20 Analytica’s work on the Leave and Trump campaigns.’”
- 21 • Facebook went on the record, on March 30, 2017, with *The Intercept*: “‘Our
22 investigation to date has **not uncovered anything that suggests** wrongdoing,’ a
23 Facebook spokesperson told *The Intercept*,” in a report that concerned the Trump
24 campaign and some related subjects.

25 These statements were all false – as Facebook’s “spokesperson” knew, having specifically
26 referenced Facebook’s “investigation,” which uncovered far more than mere “suggestions” of
27 wrongdoing by Cambridge Analytica.” See §VI.D.-K.

28 11. In addition, there is no dispute that by December 2015 defendants knew that
significant amounts of sensitive user data had been transferred to third parties in violation of its
stated policies. Defendants also knew that this created huge – and undisclosed – risks for the
Company. Facebook’s ability to generate revenue depended on users’ willingness to post – and
share – data on which ads were based. If user engagement declined, or if users became less willing

1 to share their data, Facebook’s ability to generate revenue would diminish. And the number one
2 thing that could cause users to disengage or refuse to share their data was a lack of trust that the
3 Company was protecting their information. Zuckerberg himself has admitted that “the No. 1 thing
4 that people care about is privacy and the handling of their data.”⁶

5 12. Despite their knowledge of these risks, defendants decided to conceal and deny them
6 in public statements, including in documents filed with the United States Securities and Exchange
7 Commission (“SEC”) during the Class Period. In their periodic SEC filings, defendants set forth a
8 number of “risk factors,” including the risk of harm to Facebook’s business if third parties obtained
9 user data. Facebook, however, described these risks as merely hypothetical, stating that “*if*
10 developers fail to adopt or adhere to adequate data security practices . . . our users’ data *may be*
11 improperly accessed” and “*if* that happened there “*could*” be harm to Facebook’s business. In
12 reality, defendants knew that these risks were not hypothetical because they knew that multiple third
13 parties – Cambridge Analytica and others – had *in fact* improperly gained access to user data and
14 used it in ways not consented to or authorized by those users. *See* §IV.C.-E. And Cambridge
15 Analytica kept misusing the data throughout the 2016 political season, after it gave Facebook a
16 fraudulent “certification” or “confirmation” of deletion – a fraud that Facebook discovered no later
17 than June 11, 2016.

18 13. Defendants reinforced their false and misleading risk disclosures through other
19 misrepresentations during the Class Period. In February and March 2017, defendants responded to
20 press inquiries regarding the status of their “investigation” into Cambridge Analytica by: (i) referring
21 reporters to Cambridge Analytica’s website statement that it supposedly “does not use data from
22 Facebook”; and (ii) telling reporters that Facebook’s “investigation to date [into Cambridge] had not
23 uncovered anything that suggests wrongdoing.” These statements were false. As Zuckerberg later
24 admitted, Facebook had known since 2015 that Cambridge Analytica used data from Facebook and
25 had done so in violation of Facebook’s policies, and Cambridge Analytica kept misusing the data
26 throughout the 2016 political season, as noted. *See* §IV.C.-K.

27 ⁶ Kara Swisher and Kurt Wagner, *Here’s the transcript of Recode’s interview with Facebook CEO*
28 *Mark Zuckerberg about the Cambridge Analytica controversy and more*, Recode (Mar. 22, 2018).

1 14. On July 24, 2019, following an investigation that lasted more than a year, the SEC
2 announced a \$100 million settlement with Facebook over charges that the Company had made
3 materially false and misleading risk disclosures in its filings with the SEC, including from the start
4 of the Class Period until at least March 2018.⁷ *See* Complaint, *SEC v. Facebook, Inc.*, 3:19-cv-
5 04241-JD (N.D. Cal. July 24, 2019) (ECF No. 1) (the “SEC Complaint”). The SEC concluded that:
6 “Facebook knew, or should have known, that its Risk Factor disclosures in its annual reports . . . and
7 in its quarterly reports . . . were materially misleading.”⁸ These materially false statements acted as a
8 “fraud or deceit upon purchasers” of Facebook stock during the Class Period.⁹

9 15. Defendants also made representations regarding the privacy and security of user data
10 on Facebook during the Class Period. For example, defendants assured the public that Facebook
11 users had control of their data and Facebook was not sharing sensitive user data with third parties.
12 *See, e.g.*, §IV.L.1. (Sandberg: “*you are controlling who you share with*”; Zuckerberg: when you
13 share on Facebook “*you have complete control* over who sees it and how you share it”); *see also*
14 §VI.A. These statements were materially false and misleading. In reality, users had no control over
15 their data because behind the scenes Facebook was engaged in a “massive information-sharing
16 program” that was deliberately concealed from users and investors, who did not begin to learn the
17 truth until March 2018. *Facebook*, 2019 WL 4261048, at *14 (Consumer Case).

18 16. Remarkably, Facebook engaged in these activities for years (including throughout the
19 Class Period) even though Zuckerberg had assured users on April 30, 2014 that Facebook would
20 stop allowing third parties to collect data about users’ friends, which Facebook stated in a press
21 release was “a really important step for giving people power and control over how they share their
22 data with apps” and gave people “more control over their data.”¹⁰ In contrast to Zuckerberg’s

23 _____
24 ⁷ Press Release, *Facebook to Pay \$100 Million for Misleading Investors About the Risks It Faced From Misuse of User Data*, Securities & Exchange Commission (July 24, 2019).

25 ⁸ *See* SEC Complaint at ¶44; *see also id.* at ¶¶47-49 (Facebook made misleading statements to the
26 press in February and March 2017).

27 ⁹ *Id.* at ¶53.

28 ¹⁰ Complaint for Civil Penalties, Injunction, and Other Relief, *United States of America v. Facebook*, No. 19-cv-2184 (D.D.C. July 24, 2019) (ECF No. 1) (the “FTC Complaint”) at ¶98.

1 promises, the data of more than 87 million people that was ultimately transferred to Cambridge
2 Analytica was collected *after* Zuckerberg and Facebook assured users that third parties such as GSR
3 would no longer be able to obtain users' friends' data. *See* §IV.B.-E.

4 17. Indeed, it has now become clear that defendants' "important" public announcement in
5 April 2014 was an utter sham. Defendants exempted a wide array of "whitelisted" app developers
6 and corporate giants such as Google, Amazon, Samsung, Blackberry, Huawei (a Chinese technology
7 company with deep ties to China's government) and Mail.Ru Group (a Kremlin-connected
8 technology conglomerate) from this prohibition on third-party access to user friend data. Defendants
9 allowed these entities and hundreds more to override user privacy settings in order to get this data in
10 secret. Recently obtained Facebook documents confirm the obvious: this widespread practice was
11 conceived of, and approved by, Zuckerberg and Sandberg as part of Facebook's "reciprocity"
12 initiative – where Facebook secretly gave third parties access to its trove of user data in exchange for
13 advertising revenues and other valuable business benefits. *See* §IV.C.

14 18. On July 24, 2019, the Federal Trade Commission ("FTC") announced a "record-
15 breaking **\$5 billion** penalty" against Facebook.¹¹ The FTC determined that from prior to the Class
16 Period until at least June 2018, Facebook had violated the 2012 FTC Consent Decree by "*deceiving*
17 *users about their ability to control the privacy of their information.*" The \$5 billion FTC penalty
18 against Facebook is unprecedented and historic: it is 18 times greater than the largest ever previously
19 imposed on any company for violating consumers' privacy, and as the FTC noted it is "one of the
20 largest penalties ever assessed by the U.S. government for any violation."¹² *See* §V.A.2.

21 19. In addition to false statements regarding Cambridge Analytica, the risks facing the
22 Company, and the ability of users to control their data, defendants made numerous other false and
23 misleading statements and omissions during the Class Period, including misrepresentations and
24 omissions concerning: (i) the Company's efforts to investigate and contain the data exposed to
25 Cambridge Analytica (*e.g.*, §V.E.); (ii) Facebook's response to other incidents where data had been

26 ¹¹ Press Release, *FTC Imposes \$5 Billion Penalty and Sweeping New Privacy Restrictions on*
27 *Facebook*, Federal Trade Commission (July 24, 2019).

28 ¹² *Id.*

1 exposed to third parties or used in violation of user’s privacy settings (§§VI.E., H., J., M.);
2 (iii) Facebook’s compliance with regulatory requirements governing user privacy, including the
3 2012 FTC Consent Decree (§§VI.G., I.); and (iv) the impact of Facebook’s privacy violations on its
4 business (§§VI.K.-L.).

5 20. At the same time as defendants were making false statements and concealing material
6 risks from the market they were selling billions of dollars’ worth of Facebook shares. During the
7 Class Period, Zuckerberg sold approximately 30,000 Facebook shares for proceeds of more **\$5.2**
8 **billion**, while Sandberg sold \$389 million worth of Facebook stock and Wehner \$21 million. These
9 sales exceeded defendants’ pre-Class Period sales, and included particularly large sales during the
10 first quarter of 2018 – before Facebook’s failure to address the Cambridge Analytica breach became
11 public, as did reports of numerous other false statements by the Company regarding privacy, security
12 and user control over data.

13 21. On March 17, 2018, *The Guardian* reported that Facebook had delayed taking action
14 to address the Cambridge Analytica data breach, and that Facebook user data was potentially still in
15 the hands of Cambridge Analytica and other third parties.¹³ In an article published the same day,
16 *The New York Times* reported that Facebook’s failure to comply with its privacy policies was “one of
17 the largest data leaks in the social network’s history.”¹⁴

18 22. These disclosures sent shockwaves through the market and caused the price of
19 Facebook’s common stock to drop nearly 7% on Monday, March 19, 2018, the first trading day after
20 the news broke. In the days that followed, the U.S. Congress and British Parliament called for
21 inquiries, multiple former Facebook insiders came forward with accounts of repeated warnings that
22 had been given and ignored by Zuckerberg and other members of management, and calls for users to
23 disengage from the platform – #DeleteFacebook – took off.

24
25 ¹³ Carole Cadwalladr & Emma Graham-Harrison, *Revealed: 50 million Facebook profiles*
26 *harvested for Cambridge Analytica in major data breach*, *Guardian* (Mar. 17, 2018); Carole
Cadwalladr (@carolecadwalla), TWITTER (Mar. 22, 2018).

27 ¹⁴ Matthew Rosenberg, Nicholas Confessore & Carole Cadwalladr, *How Trump Consultants*
28 *Exploited the Facebook Data of Millions*, *N.Y. Times* (Mar. 17, 2018).

1 23. By March 27, 2018, Facebook’s stock was trading as low as \$152/share, a drop of
2 nearly 18% in value from its price just before news of the Cambridge Analytica scandal broke,
3 reflecting a loss of more than \$100 billion in market capitalization. A March 2018 report by one of
4 the world’s leading corporate governance and proxy advisors, Institutional Shareholder Services
5 (“ISS”), stated that Facebook’s “failure to protect its users’ privacy has eroded the level of trust
6 among users, calling into question the company’s business model and its governance.”¹⁵

7 24. Meanwhile, defendants embarked on an orchestrated apology tour, repeatedly
8 admitting their failure to protect user privacy or live up to their prior assurances. These were not
9 mere expressions of regret. On the contrary, Zuckerberg himself signed full page advertisements in
10 several U.S. and U.K. newspapers conceding that Facebook’s response to the Cambridge Analytica
11 data breach was a “*breach of trust*,” and apologizing that “we didn’t do more at the time.”¹⁶ In other
12 public statements, Zuckerberg took “responsibility” for this breach of trust and told reporters that
13 Facebook’s actions in response to the Cambridge Analytica scandal were “clearly a mistake . . . I’m
14 not trying to say it was the right thing to do.”¹⁷

15 25. Despite their public admissions of fault, defendants rushed to assure investors that the
16 disclosures had only minor impacts on user engagement and would not have a material effect on the
17 Company’s financial performance. For example, Zuckerberg testified to Congress in April 2018 that
18 Facebook had seen no dramatic declines in the number of Facebook users and no decrease in user
19 interaction on Facebook whatsoever, and when Facebook reported its results for the first quarter on
20 2018 on April 25, 2018, defendants said that user activity had increased, advertising effects were *de*
21 *minimis*, and any incremental spending occasioned by changes the Company made to address
22
23

24 ¹⁵ Oshni Arachchi, *Trouble in Tech: A Crisis of Trust in Social Media*, ISS-Ethix (Mar. 28 2018) at
25 3.

26 ¹⁶ Sheena McKenzie, *Facebook’s Mark Zuckerberg says sorry in full-page newspaper ads*, CNN
(Mar. 25, 2018).

27 ¹⁷ Kara Swisher and Kurt Wagner, *Here’s the transcript of Recode’s interview with Facebook CEO*
28 *Mark Zuckerberg about the Cambridge Analytica controversy and more*, Recode (Mar. 22, 2018).

1 Cambridge Analytica matters were already reflected in the quarterly results.¹⁸ *See also* §VII.L.
2 (discussing additional false statements).

3 26. Buoyed by the favorable earnings report for the first quarter of 2018 and the
4 purported lack of financial impact resulting from the Cambridge Analytica scandal, Facebook's
5 stock price immediately climbed by more than 9% following the earnings report. Facebook's stock
6 price continued to climb thereafter. By July, Facebook's stock price was trading well above \$200
7 per share.

8 27. On July 25, 2018, the Company reported its earnings results for the second quarter of
9 2018, stunning investors when Facebook finally revealed that its privacy misconduct had in fact hit
10 the Company's bottom line and seriously impacted its business. Defendants reported a significant
11 decline in users in Europe, zero user growth in the United States, decelerating worldwide growth of
12 active users (*i.e.*, those most responsible for generating data used in targeted advertising), lower than
13 expected revenues and earnings, ballooning expenses affecting profitability, and reduced guidance
14 going forward. All of this was a direct result of the disclosures concerning Facebook's true privacy
15 practices. Indeed, Zuckerberg opened the July 25, 2018 investor conference call by discussing "the
16 investments we've made over the last six months to improve safety, security and privacy across our
17 services," which had "significantly impact[ed] our profitability."¹⁹

18 28. Market reaction to the Company's earnings report for the second quarter of 2018 and
19 conference call was swift and severe, causing the price of Facebook's common stock to drop by
20 nearly 19% on July 26, 2018, for a staggering single-day loss of approximately \$100 billion in
21 market capitalization. This was the *largest such one-day drop in U.S. history*. By July 27, 2018,
22 Facebook stock had fallen by 21%, shedding approximately \$112 billion in market capitalization.
23 This action seeks to recover for the enormous damages suffered by Facebook investors.

24

25

26

27 ¹⁸ Q1 2018 Facebook, Inc. Earnings Call Tr. at 15 (Apr. 25, 2018).

28 ¹⁹ Q2 2018 Facebook, Inc. Earnings Call Tr. at 3 (July 25, 2018).

1 **II. Parties**

2 **A. Plaintiffs**

3 29. Amalgamated is an investment bank with over \$4 billion in assets that serves
4 thousands of labor unions, nonprofits, social impact enterprises, political organizations, foundations
5 and individuals. Amalgamated has been offering investment management services since 1973, and
6 has over \$40 billion in assets under management and custody. Amalgamated is the trustee for the
7 LongView LargeCap 1000 Growth Index Fund, the LongView Quantitative LargeCap Fund and the
8 LongView Quant LargeCap Equity VEBA Fund, each of which purchased Facebook common stock
9 during the Class Period and were damaged thereby, as set forth in the certification attached hereto as
10 Ex. A and incorporated herein by reference.

11 30. Mississippi (or “PERS”) is a public retirement system that serves the state of
12 Mississippi. Founded in 1952, PERS provides retirement benefits for individuals working in
13 Mississippi’s state government, public schools, universities, community colleges, municipalities,
14 counties, legislature, highway patrol, and other public entities. It currently has over 300,000
15 members, including over 100,000 retiree and beneficiary members, and approximately \$26.5 billion
16 in assets under management. Mississippi purchased Facebook common stock during the Class
17 Period and was damaged thereby, as set forth in the previously-filed certification and the schedule
18 attached hereto as Ex. B, which are each incorporated herein by reference.

19 31. Ernestine Bennett, Fan Yuan, Fern Helms and James Kacouris are the plaintiffs in
20 putative class actions filed against Facebook and its officers and directors that have been
21 consolidated into this proceeding. Like the other members of the proposed Class, each of these
22 plaintiffs alleges in their respective complaints that they purchased Facebook common stock at the
23 artificially-inflated prices prevailing in the market during the Class Period and were damaged
24 thereby.

25 **B. Defendants**

26 32. Defendant Facebook is a Delaware corporation with its principal place of business
27 located in Menlo Park, California, where it owns and leases 3 million square feet of office buildings
28 and 130 acres of land for future expansion. Facebook’s common stock is traded under the ticker

1 “FB” on the NASDAQ Global Select Market (“NASDAQ”), an efficient market. As of December
2 31, 2017, the Company had 25,105 employees. In its FY17 report on SEC Form 10-K, the Company
3 stated: “We use our investor.fb.com and newsroom.fb.com websites as well as Mark Zuckerberg’s
4 Facebook Page (<https://www.facebook.com/zuck>) as means of disclosing material non-public
5 information and for complying with our disclosure requirements under Regulation FD.”²⁰

6 33. Defendant Zuckerberg founded Facebook in 2003 and is its CEO and Chairman of the
7 Board. Zuckerberg controls Facebook. The Company has two classes of common stock, giving
8 Zuckerberg the ability to control more than half of the voting power of the company. Because
9 Zuckerberg controls a majority of the company’s voting power, Facebook is considered a “controlled
10 company” pursuant to corporate governance rules for NASDAQ-listed companies. As a result, FB
11 does not need to have a majority of independent directors, a compensation committee, or an
12 independent nominating function (directors are responsible for nominating members to the
13 company’s board). Zuckerberg personally appointed more than half of Facebook’s Board of
14 Directors, including himself, and has the authority to make major decisions by himself.

15 34. As set forth herein, defendant Zuckerberg controlled the Company, had knowledge of
16 or access to inside information concerning Facebook, including the conduct described below and had
17 a duty to disseminate accurate information concerning Facebook and to correct any misleading
18 statements, which he violated in making the misrepresentations and omissions alleged herein.
19 Indeed, defendant Zuckerberg was personally involved in developing Facebook’s data security
20 platform and, according to his own admissions, personally responsible for the data security breach
21 and other facts, transactions and circumstances alleged herein. For example, Zuckerberg has
22 publicly stated that he is “responsible for what happens on our platform”²¹ and testified that “I
23 started Facebook, I run it, and I’m responsible for what happens here.”²² Zuckerberg also

24 _____
25 ²⁰ As used herein, “FY” means the Company’s fiscal year, and “Q” means the Company’s fiscal
quarter (e.g., FY17 means fiscal year 2017, and 1Q17 means the first fiscal quarter of 2017).

26 ²¹ Kif Leswing, *Mark Zuckerberg and Sheryl Sandberg respond to Cambridge Analytica scandal*,
Business Insider (Mar. 21, 2018).

27 ²² Committee Hearing Transcript, Senate Commerce, Sci. and Transp. Comm. and Senate Judiciary
28 Comm. Joint Hearing on Facebook (“Committee Hearing Transcript”) (Apr. 10, 2018) at 6.

1 specifically admitted responsibility and apologized for the Cambridge Analytica data breach,
2 testifying that the situation “was a big mistake. And it was my mistake. And I’m sorry.”²³ During
3 the Class Period, Zuckerberg sold 29,680,150 shares, netting gross proceeds of \$5,330,078,471.

4 35. Defendant Sandberg is, and at all relevant times was, COO of Facebook. Since she
5 was appointed COO in March 2008, Sandberg has run the Company’s business operations and is
6 Zuckerberg’s “right hand” in running the Company. Sandberg has served on Facebook’s Board of
7 Directors since June 2012. As set forth herein, Sandberg controlled the Company, had knowledge of
8 or access to inside information concerning Facebook, including the conduct described below and had
9 a duty to disseminate accurate information concerning Facebook and to correct any misleading
10 statements, which she violated in making the misrepresentations and omissions alleged herein.
11 Indeed, Sandberg has asserted that she is responsible for “controls on the Company” relating to data
12 security and she holds herself “responsible for the [controls] we didn’t have.”²⁴ “[W]e run the
13 company,” Sandberg has said.²⁵ During the Class Period, Sandberg sold 2,589,000 shares, netting
14 gross proceeds of \$389,943,538.

15 36. Defendant Wehner is, and at all relevant times was, CFO of Facebook. Since he was
16 appointed CFO in June 2014, Wehner has run the finance, facilities and information technology
17 functions at Facebook. From November 2012 to June 2014, Wehner served as Facebook’s Vice
18 President, Corporate Finance and Business Planning. As set forth herein, Wehner controlled the
19 Company, had knowledge of or access to inside information concerning Facebook, including the
20 conduct described below and had a duty to disseminate accurate information concerning Facebook
21 and to correct any misleading statements, which he violated in making the misrepresentations and
22 omissions alleged herein. During the Class Period, Wehner sold 130,201 shares, netting gross
23 proceeds of \$21,417,346.

24
25 ²³ *Id.*

26 ²⁴ *Full video and transcript: Facebook COO Sheryl Sandberg and CTO Mike Schroepfer at Code*
27 *2018*, Recode (May 30, 2018).

28 ²⁵ *Id.*

1 37. Defendants Zuckerberg, Sandberg and Wehner are collectively referred to herein as
2 the “Executive Defendants.” The Executive Defendants made, or caused to be made, false
3 statements that caused the price of Facebook common stock to be artificially inflated during the
4 Class Period.

5 **III. Jurisdiction and Venue**

6 38. The claims asserted herein arise under and pursuant to §§10(b), 20(a) and 20A of the
7 1934 Act, 15 U.S.C. §§78j(b), 78t(a) and 78t-1, and Rule 10b-5, 17 C.F.R. §240.10b-5, promulgated
8 thereunder by the SEC.

9 39. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C.
10 §1331 and §27 of the 1934 Act.

11 40. Venue is proper in this District pursuant to §27 of the 1934 Act and 28 U.S.C.
12 §1391(b). Facebook maintains its headquarters in Menlo Park, California, and many of the acts
13 charged herein, including the preparation and dissemination of materially false and misleading
14 information, occurred in substantial part in this District.

15 41. In connection with the acts alleged in this complaint, defendants, directly or
16 indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to,
17 the mails, interstate telephone communications and the facilities of the national securities markets.

18 **IV. Background and Overview of Defendants’ Fraud Scheme**

19 **A. Facebook’s Business**

20 42. Facebook is the world’s largest social networking company. The Company offers
21 products and platforms such as facebook.com, Instagram, Messenger, WhatsApp and Oculus, which
22 are designed to facilitate connection and information sharing between users through mobile devices
23 and personal computers. Facebook was founded in 2004 by its current CEO Zuckerberg, who
24 according to Facebook’s SEC filings is the Company’s “chief operating decision-maker.”

25 43. The Company operates by monitoring both users and non-users, tracking their
26 internet activity and retaining personal data.

1 **1. Facebook’s Business Depends on Monetizing User Data**

2 44. Facebook’s main asset is the vast treasure-trove of user personal data that it has
3 amassed since its founding. The Company generates substantially all of its tens of billions of dollars
4 in revenue by selling access to its users’ data, including through the sale of advertisements that are
5 “targeted” towards particular users based on the users’ personal data. In FY17, Facebook reported
6 \$40.6 billion in revenue, with \$39.9 billion or over 98%, coming from targeting advertising and
7 marketing placement. In FY18, Facebook’s revenue ballooned to \$55.8 billion, with \$55.01 billion
8 or 98.6% generated by ads.²⁶

9 45. Facebook stated in its FY18 Form 10-K that it was able to generate this revenue
10 because its “ads enable marketers to reach people based on a variety of factors including age, gender,
11 location, interests, and behaviors.” As one *Seeking Alpha* author explained in a March 19, 2018
12 report: “Facebook’s business model relies on its high traffic, but its real “moat” is its exclusive
13 control over a vast array of very detailed user data that allows micro-targeting advertising.”²⁷

14 46. Facebook sells targeted advertising not only on its primary platform, but also on
15 applications, or “apps,” developed by third parties and integrated into Facebook’s platform. These
16 apps represent a significant source of revenue to Facebook. For example, game apps, like Candy
17 Crush or Farmville, generate large revenues for Facebook based on the ads that are placed in front of
18 users as they play the game. These apps also help attract new users to, and engage existing users on,
19 the Facebook platform.

20 47. During and prior to the Class Period, Facebook relied heavily on the addition of apps
21 to increase user engagement. “User engagement” or “engagement” is a key metric for Facebook. It
22 is measured by counting user’s active reactions to content posted on Facebook – *i.e.*, whether users
23 “Like” a Post, or click on an image or leave a comment. Facebook engages in extensive analysis of
24 user activity and reports this information to advertisers.

25 _____
26 ²⁶ As used herein, “FY” means the Company’s fiscal year, and “Q” means the Company’s fiscal
quarter (*e.g.*, FY18 means fiscal year 2018, and 1Q18 means the first fiscal quarter of 2018).

27 ²⁷ Erich Reimer, *The Cambridge Analytica Mishap Is Serious For Facebook*, Seeking Alpha (Mar.
28 19, 2018).

1 48. Facebook has acknowledged that its financial performance depends on its success in
2 attracting active users to its platform. As the Company stated in its FY17 report on Form 10-K:
3 “The size of our user base and our users’ level of engagement are critical to our success. Our
4 financial performance has been and will continue to be significantly determined by our success in
5 adding, retaining, and engaging active users of our products, particularly for Facebook and
6 Instagram.” Simply put, engaged users generate more advertising revenue for Facebook. Indeed, as
7 Facebook explained in its FY17 annual report: “Trends in the number of users affect our revenue and
8 financial results by influencing the number of ads we are able to show, the value of our ads to
9 marketers, the volume of Payments transactions, as well as our expenses and capital expenditures.”

10 49. As discussed in more detail below, to encourage third-party app developers to
11 develop new apps for the platform, Facebook provided them with access to user’s content and data,
12 including information that users believed was private. According to Sandy Parakilas (“Parakilas”), a
13 former Facebook operations manager responsible for privacy issues, “one of the main ways to get
14 developers interested in building apps was through offering them access to this [user] data.”²⁸

15 **2. Facebook’s Success Depends on User Trust, Which Defendants**
16 **Cultivated by Stating Users Controlled Their Data**

17 50. As defendants have repeatedly acknowledged, Facebook’s reputation as a trustworthy
18 platform for sharing personal information is essential to the Company’s success.²⁹ Indeed, if unable
19 to attract new users or keep existing ones, Facebook would fail or be significantly less profitable. To
20 cultivate this critical user trust, defendants repeatedly assured the public that the Company respected
21 privacy and that users sharing on Facebook had control over their personal data.

22 _____
23 ²⁸ Paul Lewis, ‘Utterly Horrifying’: ex-Facebook insider says covert data harvesting was routine, Guardian (Mar. 20, 2018).

24 ²⁹ For example, Facebook’s Form 10-K for the fiscal year ended December 31, 2017 stated: “If
25 people do not perceive our products to be . . . trustworthy, we may not be able to attract or retain
26 users . . .”; see also Mark Zuckerberg, *Our Commitment to the Facebook Community*, Facebook
27 Newsroom (Nov. 29, 2011) (Zuckerberg describing how people share on Facebook because they
28 have “complete control over who they share with at all times”); see also Kara Swisher and Kurt
Wagner, *Here’s the transcript of Recode’s interview with Facebook CEO Mark Zuckerberg about
the Cambridge Analytica controversy and more*, Recode (Mar. 22, 2018); *CNBC Exclusive: CNBC
Transcript: Sheryl Sandberg Sits Down with CNBC’s Julia Boorstin Today*, CNBC (Mar. 22, 2018).

1 51. For example, as Sandberg stated on March 22, 2018 in a CNBC Interview, users’
2 belief that their personal data is protected, “goes to the core of our service” and maintaining users’
3 belief that their data was safe is “the most important thing we can do for running this company.”³⁰
4 Zuckerberg has likewise stressed that “[t]he No. 1 thing that people care about is privacy and the
5 handling of their data So I think *it’s a pretty big deal*.”³¹ Further, Sandberg represented in
6 October 2017 that “[w]hen [users] share on Facebook, you need to know that no one is going to steal
7 your data, no one is going to get your data that shouldn’t have it . . . and that you are controlling who
8 you share with.”³²

9 52. Likewise, Zuckerberg has publicly touted how “[p]rotecting the privacy of the people
10 on Facebook is of utmost importance to us.”³³ Zuckerberg has also specifically represented that
11 Facebook users “have control over how [their] information is shared” on Facebook; “we do not share
12 [users] personal information with people or services [they] don’t want;” and “we do not and never
13 will sell any of [Facebook’s users] information to anyone.”³⁴ Sandberg has likewise spoken publicly
14 about Facebook’s privacy controls, stating for example that “[p]rivacy is of the utmost concern and
15 importance to Facebook and it’s important to us that the people who use our service know that we
16 are very protective of them. It is their data, they have control of it, they share it.”³⁵ As detailed
17 below, Defendants’ statements were false.

18 _____
19 ³⁰ *CNBC Exclusive: CNBC Transcript: Sheryl Sandberg Sits Down with CNBC’s Julia Boorstin Today*, CNBC (Mar. 22, 2018).

20 ³¹ Kara Swisher and Kurt Wagner, *Here’s the transcript of Recode’s interview with Facebook CEO Mark Zuckerberg about the Cambridge Analytica controversy and more*, Recode (Mar. 22, 2018).

21 ³² Gideon Lichfield, *Watch Sheryl Sandberg’s technique for shielding Facebook from hard questions*, Quartz at Work (Oct. 13, 2017).

22 ³³ Graham Ruddick, *Facebook forces Admiral to pull plan to price car insurance based on posts*, Guardian (Nov. 2, 2016).

23 ³⁴ Mark Zuckerberg, *From Facebook, answering privacy concerns with new settings*, Wash. Post (May 24, 2010); *see also* Facebook Data Policy (Jan. 30, 2015); Anita Balakrishnan, Sara Salinas & Matt Hunter, *Mark Zuckerberg has been talking about privacy for 15 years – here’s almost everything he’s said*, CNBC (Mar. 21, 2018).

24 ³⁵ Press Association, *Facebook’s Sheryl Sandberg defends targeted ads*, Guardian (Apr. 22, 2014); Gideon Lichfield, *Watch Sheryl Sandberg’s technique for shielding Facebook from hard questions*, Quartz at Work (Oct. 13, 2017).

1 **B. In 2012, Facebook Agreed to an Extraordinary 20-Year FTC Consent**
2 **Decree Due to Repeated Failures to Protect User Privacy**

3 53. In contrast to their public assurances, defendants repeatedly disregarded user privacy
4 and data control in order to promote growth and increase profits. This approach has led to repeated
5 regulatory violations and other problems.

6 54. On November 29, 2011, the FTC announced that Facebook had agreed to settle
7 “charges that it deceived consumers by telling them they could keep their information on Facebook
8 private, and then repeatedly allowing it to be shared and made public.”³⁶ These charges included the
9 fact that Facebook had represented that third-party apps on its platforms would only have access to
10 user data “that they needed to operate” when, in fact, “the apps could access nearly all of users’
11 personal data – data the apps didn’t need.”³⁷

12 55. The FTC had alleged that Facebook told its users that:³⁸

13 (a) they could restrict access to information by selecting a “Friends Only” setting
14 when, in fact, that setting “did not prevent their information from being shared with third-party
15 applications their friends used”;

16 (b) their photos and videos would be inaccessible to others once their accounts
17 were deactivated or deleted when, in fact, Facebook had “allowed access to the content, even after
18 users had deactivated or deleted their accounts”; and

19 (c) the Company “complied with the U.S.- EU Safe Harbor Framework that
20 governs data transfer between the U.S. and the European Union” when, in fact: “It didn’t.”

21 56. The November 2011 FTC press release about the settlement stated that Facebook had
22 agreed “to take several steps to make sure it lives up to its promises in the future, including giving
23 consumers clear and prominent notice *and obtaining consumers’ express consent before their*

24 ³⁶ *Facebook Settles FTC Charges That It Deceived Consumers By Failing To Keep Privacy*
25 *Promises*, Federal Trade Commission (Nov. 29, 2011). *See also* Jacqui Cheng, *FTC complaint says*
Facebook’s privacy changes are deceptive, Ars Technica (Dec. 21, 2009); Ryan Singel, *Facebook*
Privacy Changes Break the Law, Privacy Groups Tell FTC, Wired (Dec. 17, 2009).

26 ³⁷ *Facebook Settles FTC Charges That It Deceived Consumers By Failing To Keep Privacy*
27 *Promises*, Federal Trade Commission (Nov. 29, 2011).

28 ³⁸ *Id.*

1 **information is shared beyond the privacy settings they have established.”** According to the FTC,
2 the settlement “bar[ed] Facebook from making any further deceptive privacy claims, require[d] that
3 the company get consumers’ approval before it changes the way it shares their data, and it require[d]
4 that Facebook obtain periodic assessments of its privacy practices by independent, third-party
5 auditors for the next 20 years.”³⁹

6 57. On August 10, 2012, Facebook and the FTC formally agreed to settle the FTC’s
7 charges and entered into the Consent Decree (the “FTC Consent Decree” or “Consent Decree”) that
8 would govern Facebook’s conduct for the subsequent 20 years.⁴⁰

9 58. Part I of the Consent Decree provided that Facebook, “in connection with any product
10 or service . . . shall not misrepresent in any manner, expressly or by implication, the extent to which
11 it maintains the privacy or security of covered information, including, but not limited to: . . . (B) the
12 extent to which a consumer can control the privacy of any covered information maintained by
13 [Facebook] and the steps a consumer must take to implement such controls; [and] (C) the extent to
14 which [Facebook] makes or has made covered information accessible to third parties”⁴¹

15 59. Part IV of the Consent Decree additionally ordered Facebook to “establish and
16 implement, and thereafter maintain, a comprehensive privacy program that is reasonably designed
17 to: (1) address privacy risks related to the development and management of new and existing
18 products and services for consumers; and (2) protect the privacy and confidentiality of covered
19 information.”⁴²

20 60. As David Vladeck, the former FTC Director who worked on the agency’s
21 enforcement action against Facebook, explained, “[t]he **FTC consent decree put Facebook on**
22
23

24 ³⁹ *Id.*

25 ⁴⁰ John Leibowitz, J. Thomas Rosch, et al., *Decision and Order*, Federal Trade Commission (Aug.
26 10, 2012).

27 ⁴¹ *Id.*

28 ⁴² *Id.*

1 **notice**” that its representations concerning its privacy practices needed to be completely accurate and
2 that any representations would receive significant regulatory scrutiny.⁴³

3 61. As described in more detail in §§IV.C., IV.G.1. and V.A.2., *infra*, in 2019 following
4 an extensive investigation, the FTC charged Facebook with violating Parts I.B, I.C, and IV of the
5 Consent Decree by, *inter alia*, “***misrepresenting the extent to which users could control the privacy***
6 ***of any covered information maintained by [Facebook]***” based on conduct extending through the
7 Class Period, including Facebook’s practice of whitelisting third parties for continued access to user
8 friends’ data without the knowledge or consent of the users. Indeed, Facebook even overrode users’
9 privacy settings in order to provide whitelisted third parties with access to use friend data.⁴⁴

10 62. In July 2019, Facebook settled the FTC’s charges by paying a record-breaking \$5
11 billion penalty, which constituted the “largest ever imposed on any company for violating
12 consumers’ privacy” and was “almost 20 times greater than the largest privacy or data security
13 penalty ever imposed worldwide.”⁴⁵

14 **C. Defendants Immediately Violated the FTC Consent Decree by**
15 **Continuing to Secretly Share User Friends’ Data**

16 63. Despite the 2012 FTC Consent Decree, Facebook secretly continued giving third-
17 party app developers access to user friends’ data regardless of how users set their Privacy Settings.⁴⁶

18 **1. Reciprocity: Facebook Gave Third Parties Access to User**
19 **Friends’ Data in Exchange for Data, Money or Other Business**
20 **Benefits**

21 64. In 2013, defendants acknowledged internally that it was improper for Facebook to
22 give third-party app developers to access user friends’ data. As an internal Facebook document

23 ⁴³ David C. Vladeck, *Facebook, Cambridge Analytica, and the Regulator’s Dilemma: Clueless or Venal?*, Har. L. Rev. (Apr. 4, 2018).

24 ⁴⁴ FTC Complaint at ¶¶43-48.

25 ⁴⁵ *Id.*

26 ⁴⁶ FTC Complaint at ¶¶37-50. As explained below, the FTC determined this conduct to have
27 violated the FTC Consent Decree because “Facebook represented to consumers that they could
28 control the privacy of their data by using desktop and mobile privacy settings to limit the
information Facebook could share” – but “[i]n fact, Facebook did not limit its sharing of consumer
information.”

1 dating from August 2013 explains: “Users should not be able to act as a proxy to access personal
2 information about friends that have not expressed any intent in using the app.”⁴⁷

3 65. Defendants’ belated acknowledgement was long overdue. As the 2019 FTC
4 Complaint charges: “Facebook knew or should have known that its conduct violated the 2012
5 [Consent Decree] because it was *engaging in the very same conduct that the [FTC] alleged was*
6 *deceptive in Count One of the original Complaint that led to the 2012 [Consent Decree].*”⁴⁸

7 66. The problem for Facebook was that completely cutting off this practice – and
8 providing users with actual control over their data – would significantly limit Facebook’s ability to
9 profit from its vast store of user data. Defendants did not want to completely give up on monetizing
10 this data.

11 67. Accordingly, defendants – including Zuckerberg and Sandberg – decided to continue
12 providing access to user friend data to a wide array of third parties who would, in exchange, provide
13 reciprocal value to Facebook. As discussed below, and confirmed in internal Facebook documents,
14 this “reciprocity” became the “fundamental principle that govern[ed]” the Facebook platform from
15 2014 and continued through mid-2018.

16 68. The way it worked was that defendants would exchange user friend data as
17 consideration for a reciprocal exchange of value with third-party app developers and other
18 companies who were “whitelisted” for secret access to user friend data.

19 69. In this way, defendants engaged in selling user friend data in exchange for reciprocal
20 benefits. For defendants, “reciprocity” came in various forms, including an exchange of data
21 between a whitelisted app developer and Facebook, by Facebook requiring the third party to spend
22 substantial sums on advertising at Facebook or by a third party enhancing Facebook’s brand and
23 platform to make it more attractive to users, as in the case of the dozens of major phone device
24 makers that Facebook whitelisted during the Class Period.

25

26

27 ⁴⁷ *Id.* at ¶81.

28 ⁴⁸ *Id.* at ¶9.

1 70. Indeed, as noted by *Slate*, Facebook’s whitelisting “private agreements were
2 conditional on the third party sending over its own valuable user data to Facebook, or on the
3 company making big advertising purchases with Facebook,” which constitutes a “business in selling
4 or bartering data.”⁴⁹

5 **2. Facebook’s Internal Documents Confirm Defendants’ Decision**
6 **to Exchange Data for Reciprocal Value**

7 71. Internal Facebook documents made public in connection with litigation between
8 Facebook and an app developer, Six4Three, LLC (the “Six4Three Documents”)⁵⁰ confirm that
9 defendants supplied user friend data in exchange for reciprocal value. For example, an internal
10 Facebook memo explaining the policies for Facebook’s Platform 3.0 rollout (which indicates that the
11 memo was created in the period from mid-2013 to early 2014), states:⁵¹

12 *The fundamental principle that governs Platform usage is a simple concept:*
13 *reciprocity. Reciprocity involves an equitable value exchange between a 3rd party*
14 *developer and Facebook. This value exchange involves one of the following from*
15 *developers: high-quality experiences that FB users can use to tell great stories to their*
16 *friends and family on FB and/or monetary value in the form of revenue sharing or*
17 *direct payment. In return, Facebook offers a developers [sic] access to our Platform.*

18 The memo also states: “During app review, we examine the APIs that the app uses in order to
19 determine what [is] the appropriate level of reciprocity. The guideline for this review is ‘take data,
20 give data.’”⁵²

21 72. Facebook emails dating from September 2013 also note that “the capability will
22 remain to give access features which are publicly deprecated [*i.e.*, discontinued] but available to
23

24 ⁴⁹ Elena Botella, *Facebook Earns \$132.80 From Your Data Per Year*, *Slate* (Nov. 15, 2018).

25 ⁵⁰ *Six4Three, LLC v. Facebook, Inc., Mark Zuckerberg et al.*, No. CIV 533328 (Cal. Super. Ct. San
26 Mateo Cnty.) (Hon. V. Richard Swope) (the “Six4Three Litigation”).

27 ⁵¹ Six4Three Documents, Ex. 43 at FB-01220345.

28 ⁵² *Id.* at FB-01220349.

1 whitelisted apps.”⁵³ This included “apps that have been whitelisted for . . . friends_”⁵⁴ and listed
2 Netflix as an example.⁵⁵

3 73. Facebook directly linked third parties’ access to data to the amount a third party was
4 spending on advertising at Facebook. For example, an email string dating from September 2013
5 shows Ime Archibong, Facebook’s Director of Global Product Partnerships, and Konstantinos
6 Papamiltiadis, Facebook’s Director of Developer Platforms and Programs, discussing the fact that
7 Facebook was requiring third-party app developers to “spend on [advertising at Facebook] *at least*
8 *\$250K a year to maintain access to the data.*” Otherwise, they would “[c]ommunicate in one-go to
9 all apps that don’t spend that those permission[s] will be revoked.”⁵⁶

10 74. Zuckerberg and Sandberg were involved in the decision to exchange user friends’
11 data for reciprocal value from third parties. For example, internal Facebook documents dating from
12 October 30, 2012 shows Facebook employees stating that “we’ve been having *a series of*
13 *conversations w/ Mark [i.e., Zuckerberg]* for months about the Platform Business Model.”⁵⁷ These
14 discussions included the fact that Facebook would “remove/*whitelist access* to the Stream APIs and
15 Search APIs and potentially other APIs that might leak the friend graph” and that “[w]e are going to
16 require that all platform partners agree to data reciprocity.”⁵⁸

17 75. Zuckerberg and Sandberg were on an email exchange dated November 9, 2012 where
18 they each approved the use of “reciprocity” in order to increase the value of Facebook. Zuckerberg
19 stated: “*I think we should go with full reciprocity*” in order to “*increase the value of our network*
20
21
22

23 ⁵³ Six4Three Documents, Ex. 80 at FB-000061439.

24 ⁵⁴ *Id.*

25 ⁵⁵ *Id.* at FB-000061437.

26 ⁵⁶ Six4Three Documents, Ex. 79 at FB-000061251.

27 ⁵⁷ Six4Three Documents, Ex. 45 at FB-00423235-36.

28 ⁵⁸ *Id.* at FB-00423236.

1 ...[by] ... *increas[ing] sharing back into Facebook.*⁵⁹ Sandberg responded: “I like full
2 reciprocity and this is the heart of why.”⁶⁰

3 76. The Six4Three Documents also include an internal Facebook email exchange on
4 November 2012 in which a Facebook employee suggested that his team “identify our top 20
5 developers and put together a straw man for how we will enforce reciprocity with each of them. We
6 need this for the meeting with Mark [Zuckerberg] on Monday to help ground the discussion about
7 what ‘full reciprocity’ actually means”⁶¹ The same day, those employees discussed whether the
8 team would classify the developers who would be required to engage in reciprocity with Facebook
9 by “a specific criterion (*e.g.*, MAU)” or “based on the . . . partners which Mark [Zuckerberg] focuses
10 on.” Mike Vernal (“Vernal”) responded that the team should focus on “*the apps that Mark*
11 *[Zuckerberg] knows, loves, and is concerned about.*”⁶²

12 77. Additional internal Facebook emails show that Zuckerberg was actively involved in
13 granular decisions to grant or ban third parties from having access to users’ friends’ data. An
14 internal Facebook email exchange dating from January 2013 shows that Zuckerberg specifically
15 approved shutting down Twitter’s “friends API access” because Twitter, a competitor, had launched
16 the “Vine” video app that allowed users to “find friends via FB.” As such, Facebook staff wrote,
17 “Unless anyone raises objections, we will shut down their friends API access today.” Zuckerberg
18 replied: “Yup, go for it.”⁶³

19 78. As for Tinder, which was whitelisted, Zuckerberg wrote about the reasons why a
20 Tinder co-founder wanted to meet with him, stating: “He probably just wants to make sure we won’t
21
22
23

24 ⁵⁹ Six4Three Documents, Ex. 48 at FB-01155756.

25 ⁶⁰ *Id.*

26 ⁶¹ Six4Three Documents, Ex. 175 at FB-00947599.

27 ⁶² *Id.* at FB-00947598.

28 ⁶³ Six4Three Documents, Ex. 44 at FB-00934373.

1 turn off their API.”⁶⁴ Of course, Facebook “whitelisted” this dating app so they continued to get
2 secret access to users’ friends’ data.

3 79. Similarly, the Six4Three Documents show that Facebook made decisions about how
4 to deal with developers who were angry about changes to the platform (*i.e.*, restriction of their access
5 to user friends’ data) based on the apps’ spending and personal relationships with Zuckerberg and
6 Sandberg. In December 2013, a Facebook employee wrote: “There are also comms plans in the
7 works for working with developers who are high ad spenders and *friends of Mark/Sheryl* [*i.e.*,
8 Zuckerberg and Sandberg].”⁶⁵

9 80. Indeed, reports show that Facebook used “whitelisting” as a bargaining chip with
10 third parties while presenting the more restrictive policies to the public as privacy enhancements.
11 Before Facebook supposedly cut off third parties’ access to users’ friends’ data, an internal Facebook
12 email shows the Company divided apps into ““three buckets: existing competitors, possible future
13 competitors, [or] developers that we have alignment with on business models.””⁶⁶ Facebook
14 employees internally complained that this plan to “group apps into buckets based on how scared we
15 are of them” made them feel “unethical” and “like a bad person.”⁶⁷ After Facebook supposedly cut
16 off access to friends’ data, and announced that change publicly (*see* §IV.D., *infra*), the developers
17 who fell into the “alignment” bucket were able to regain access privately by agreeing to make
18 mobile advertising purchases or provide reciprocal user data from their sites. Facebook executives
19 who worked on the plan reportedly referred to it as the “Switcharoo Plan.””

20 81. Facebook employees pointed to Zuckerberg as being intimately involved in the
21 discussions and decision-making around these changes to the platform. For instance, in an October
22 2013 instant message conversation among Facebook employees, Douglas Purdy wrote: “[W]e have

23 _____
24 ⁶⁴ Angel Au-Yeung, *Facebook CEO Mark Zuckerberg Dismissed Tinder Cofounder As Irrelevant
But Still Let Dating App Get Special Access To Users’ Data*, Forbes (Nov. 7, 2019).

25 ⁶⁵ Six4Three Documents, Ex. 198 at FB-00194154.

26 ⁶⁶ Katie Paul & Mark Hosenball, *Facebook executives planned ‘switcharoo’ on data policy change:
27 court filings*, Reuters (Nov. 6, 2019).

28 ⁶⁷ Six4Three Documents, Ex. 109 at FB-01363612-13.

1 spent hours and hours with [Z]uck, etc. about this.”⁶⁸ Similarly, another Facebook employee wrote
 2 in 2013 that he shared his concerns about changes to the platform “in every single meeting I have
 3 with . . . Zuck.”⁶⁹

4 **D. Cambridge Analytica and GSR Harvest Facebook Users’ “Likes” and**
 5 **Personal Information for Political and Commercial Purposes**

6 **1. Background on Cambridge Analytica’s “Psychographics,”**
 7 **Relationship to Facebook “Likes” Data, and Parties Involved**
 8 **in the Data Misappropriation**

9 82. Cambridge Analytica offered political campaigns the opportunity to weaponize social
 10 media data as a voter manipulation tool. In 2014, the company began looking to Facebook for the
 11 underlying data necessary to provide such services.

12 83. By early 2014, Alexander Nix (“Nix”), Cambridge Analytica’s CEO, learned about a
 13 research paper by a Cambridge University academic named Michal Kosinski (“Kosinski”), titled
 14 “Private traits and attributes are predictable from digital records of human behavior.”⁷⁰ The paper
 15 found that Facebook users’ “likes” could be used to successfully predict an individual’s personality
 16 traits according to the “OCEAN” scale, a psychometric model that measures an individual’s
 17 openness to experiences, conscientiousness, extraversion, agreeableness, and neuroticism. The paper
 18 warned that the “[l]ikes” data “may have considerable negative implications, because it can easily be
 19 applied to large numbers of people without obtaining their individual consent and without them
 20 noticing.”⁷¹ Nix was interested in this research paper because Cambridge Analytica intended to offer

21
 22 ⁶⁸ Six4Three Documents, Ex. 113 at FB-01353433.

23 ⁶⁹ Six4Three Documents, Ex. 114 at FB-01364691.

24 ⁷⁰ Michael Kosinski, David Stillwell, & Thore Graepel, *Private traits and attributes are*
 25 *predictable from digital records of human behavior*, PNAS, 110 (Apr. 9, 2013) at 5802 (“Kosinski
 26 Paper”); see also Complaint, *In the Matter of Cambridge Analytica, LLC*, No. 9383 (July 24 2019)
 (“FTC Cambridge Complaint”) at ¶7 (timing of discovery by Nix).

27 ⁷¹ Kosinski Paper at 5805. The FTC weighed this kind of research – perhaps this very paper – in
 28 arriving at its decision to issue a \$5 billion penalty to Facebook: “Research suggests that *a user’s*
‘likes’ of public Facebook pages can be used to accurately predict that user’s personality traits,
 sometimes better than the user’s own friends and family.” FTC Complaint at ¶2.

1 voter profiling, microtargeting and other marketing services to U.S. campaigns and other U.S.-based
2 clients.⁷²

3 84. Christopher Wylie (“Wylie”) was a senior data scientist working for Nix in a
4 Cambridge Analytica affiliate called SCL Elections, which was based in the U.K. Nix tasked Wylie
5 to figure out how to obtain the Facebook “likes” data *and* data modelling that Nix wanted – data and
6 modelling that Nix wanted for commercial purposes.

7 85. To that end, Wylie approached some professors at Cambridge University who were
8 familiar with Kosinski’s paper about modelling Facebook “likes.” Wylie had spoken with a few
9 professors who rejected Wylie’s proposals that they work with Cambridge Analytica to harvest and
10 model Facebook “likes” for political-commercial purposes. But Aleksandr Kogan (“Kogan”) told
11 Wylie that he would do the data harvesting project. Kogan told Wylie, in substance, ““Well, I could
12 do it. As long as you pay for the data and pay for costs, we can do it and figure out some kind of
13 commercial deal after so let’s just see if this works,”” as Wylie testified.⁷³ And Kogan got to work
14 on the Facebook “likes” data harvesting and modelling project with one of his colleagues at
15 Cambridge University – a Ph.D. researcher named Joseph Chancellor (“Chancellor”).

16 86. Wylie has testified about the importance of Facebook’s data to Cambridge Analytica:
17 “Facebook *data* and the acquisition, using Kogan’s *app* was *the foundational dataset* of the
18 company [Cambridge Analytica]. That is how the algorithms were developed” to generate the
19 psychographic profiles of Facebook users.⁷⁴

20 87. Kogan told 60 Minutes that he ““*did everything*”” on the Facebook data harvesting
21 and modeling project with Chancellor, a post-doc researcher at Cambridge University.⁷⁵ “The two
22 were co-founders and equal co-owners of Global Science Research, or GSR, the company that

23 _____
24 ⁷² FTS Cambridge Complaint at ¶9.

25 ⁷³ Wylie testified to the House of Commons’ Digital, Culture, Media and Support Committee in the
U.K. on March 27, 2018 (“Wylie U.K. Test.”) at Q1322.

26 ⁷⁴ Wylie U.K. Test. at Q1305.

27 ⁷⁵ Alex Pasternack, *A Facebook scientist tied to Cambridge Analytica has quietly left Facebook*,
28 FastCompany (Sept. 6, 2018).

1 Cambridge Analytica hired to gather the user data and analyze it for psychological traits.”⁷⁶
2 Facebook eventually lured Chancellor away to work for Facebook at their Menlo Park headquarters.
3 *See infra* §IV.E.

4 88. In April 2014 – as Kogan and Chancellor were preparing to put their “Quiz App” into
5 action – Facebook announced a change to the platform threatened their data harvesting project.

6 **2. In April 2014, Facebook Publicly Announced that Access to**
7 **Users’ Friends Data Would Be Prohibited**

8 89. In April 2014, Facebook publicly announced that it was shutting down third parties’
9 ability to access and collect user friends’ data. On April 30, 2014, Zuckerberg himself made this
10 announcement at Facebook’s April 30, 2014 F8 Developers’ Conference, where he acknowledged
11 how “surpris[ing]” it can be “when friends share some of your data with an app,” which he promised
12 to “change.”⁷⁷

13 90. Zuckerberg elaborated that Facebook was aware that users had grown “scared” to log
14 in to apps via Facebook:⁷⁸

15 [W]e need to do everything we can to put people first and give people the
16 tools they need to [be able to sign] in and trust your apps.

17 Now, we know that some people are scared of pressing this blue button [*i.e.*,
18 the Facebook button]. You probably – a lot of you have maybe even had personal
19 experiences where you felt this. It’s some of *the most common feedback* that we get
20 on our platform.

21 91. Zuckerberg stated that Facebook would shut-off third-party access to user friend data
22 to ensure that “everyone has to choose to share their own data with an app themselves.”⁷⁹ He
23 stressed that this was “a really important step for giving people power and control over how they

24 ⁷⁶ *Id.*

25 ⁷⁷ Larry Magid, *Zuckerberg Pledges More User Control Of Facebook App Privacy – Unveils*
26 *Anonymous Log-In*, Forbes (Apr. 30, 2014); *see also* FTC Complaint at ¶97.

27 ⁷⁸ *Facebook’s CEO Mark Zuckerberg F8 2014 Keynote (Full Transcript)*, Singiu Post (July 5,
28 2014).

⁷⁹ FTC Complaint at ¶97.

1 share their data with apps.”⁸⁰ On April 30, 2014, Facebook issued a press release promising to give
 2 “*people more control*,” including “*more control over their data*.”⁸¹

3 92. As stated in the FTC Complaint, “in April 2014 . . . Facebook announced that it
 4 would stop allowing third-party developers to collect data [about friends].”⁸² As noted below,
 5 Zuckerberg and Facebook admitted that this fact was to be “taken as true” in any subsequent
 6 litigation by the FTC. Indeed, as also discussed below, Facebook admitted the same in its March 16,
 7 2018 public statement announcing that Cambridge Analytica and SCL Group were being suspended
 8 from Facebook, stating, for example: “*In 2014*, after hearing feedback from the Facebook
 9 community, we made an update to ensure that each person decides what information they want to
 10 share about themselves, including their friend list. This is just one of the many ways we give people
 11 the tools to *control their experience*.”⁸³

12 93. Despite what the FTC Complaint calls “these clear statements,” “Facebook continued
 13 to allow *millions* of third-party developers access to [user friends’ data] for at least another year.”⁸⁴
 14 The FTC Complaint notes that “Facebook did not disclose this fact to its users” - thereby depriving
 15 users of knowledge and the ability to consent to the disclosure of their data.⁸⁵

16 94. This conduct violated Parts I.B and I.C of the FTC Consent Decree, which prohibited
 17 Facebook from misrepresenting ““the extent to which a consumer can control the privacy of [their
 18
 19

20 ⁸⁰ *Id.*

21 ⁸¹ *Id.* at ¶98.

22 ⁸² *Id.* at ¶8.

23 ⁸³ See Paul Grewal, *Suspending Cambridge Analytica and SCL Group From Facebook*, Facebook
 24 Newsroom (Mar. 16, 2018).

25 ⁸⁴ FTC Complaint at ¶164.

26 ⁸⁵ *Id.* at ¶100. To the contrary, in September 2015, Facebook launched a “Privacy Checkup” tool
 27 as a means to help users “be in control” of their data and included a list of apps that users had
 28 installed. But this tool failed to list the apps that had access to user data based on their friends’
 consent and did not disclose that Facebook was continuing to share that data with “millions of third-
 party developers.” *Id.* at ¶¶101-105.

1 personal information]” and “the extent to which [Facebook] makes or has made covered
2 information accessible to third parties.”⁸⁶

3 3. Additional Changes Announced on April 30, 2014

4 95. Also on April 30, 2014, Facebook issued a press release and video tutorial about
5 changes to the app log in procedures. The press release stated: “*Today*, we’re making additional
6 improvements to Login based on people’s feedback.” It noted how “people tell us that some apps
7 ask for too many permissions . . . [t]o address this, we’re extending our existing App Center and
8 Open Graph review process to Login.” The press release also promised to give “people more
9 control,” including “more control over their data.” The accompanying video tutorial stated:⁸⁷

10 [P]ermissions are all about enhancing peoples’ experiences *in your app*.
11 People shouldn’t feel frustrated or worried [about the permissions the app is
12 seeking]. So, during the review process, we’ll make sure that your app is only
13 requesting the permissions that *it really needs*. . . . We make sure to test your
Facebook login info on a variety of devices to make sure that there are no crashes or
error warnings. This may all seem *really obvious* but it’s gonna make a huge
difference when building trust with your app’s audience.

14 96. The April 30, 2014, Facebook Log In announcement arose years after “*senior*
15 *Facebook management employees* observed that third-party developers were making more than 800
16 billion calls to the API per month and noted that permissions for Affected Friends’ data were being
17 *widely misused*.”⁸⁸ Senior executive Vernal (who “reported directly to CEO Zuckerberg”)⁸⁹ framed
18 the issue in terms of being between a rock and a hard place: “I know there’s a constant tension
19 between protecting users and respecting our developer community,” but “[w]e need to soften the
20 punishment” on developers who do not comply with Facebook’s policies.⁹⁰ But another employee

21
22
23 ⁸⁶ *Id.*, Count I at ¶¶160-165.

24 ⁸⁷ Jeff Sephar, *The New Facebook Login and Graph API 2.0*, Facebook for Developers (Apr. 30,
2014) (embedded video).

25 ⁸⁸ FTC Complaint at ¶85.

26 ⁸⁹ Kurt Wagner, *Big-Time Facebook Executive Mike Vernal Is Headed to Sequoia*, Vox (Apr. 18,
27 2016).

28 ⁹⁰ Six4Three Documents, Ex. 19 at FB-01062013-2014.

1 responded that “56% of the time when a user sees a platform permission dialogue, they don’t grant
2 them” and that “[u]sers don’t trust us enough to handle bad apps.”⁹¹

3 **4. Facebook Initially Rejects Kogan’s Quiz App for Taking Data**
4 **It Does Not Need – in Violation of Facebook Policies – Then**
5 **Overrides Its Own Rejection**

6 97. Kogan and Chancellor submitted the Quiz App to Facebook in the context of
7 addressing user fears. On May 6, 2014, Kogan filed an app review application disclosing that the
8 Quiz App wanted to seek users’ permission to download their birthdates, locations (current city) and
9 “likes[.]”⁹² But the Quiz App was a single-use “quiz.” The app did not need to know where users
10 lived and what they “liked.” Requesting data that it did not need was a red flag that the app would
11 do something else with the data.

12 98. On May 7, 2014, Facebook’s app review process rejected the Quiz App. Facebook
13 wrote to Kogan: “Your app is not using the data gained from this permission to enhance the in-app
14 experience. Please refer to the documents on how to use permissions to create a high-quality,
15 unique, *in-app* experience for the user.”⁹³ Facebook later said that it rejected the Quiz App on May
16 7, 2014 because it “was requesting more data than it needed to operate *and* did not need to use that
17 data to enhance a user’s in-app experience.”⁹⁴ Facebook’s policy was clear at the time: “Request
18 only the data and publishing permissions your app needs.”⁹⁵

19 99. Facebook’s “partnership team” was responsible for rejecting Kogan’s Quiz App, as
20 well as all other app rejection decisions at the time.⁹⁶ From 2011-2018, the team was run by Dan

21 ⁹¹ *Id.* at FB-01062012.

22 ⁹² Joint investigation of Facebook, Inc. by the Privacy Commissioner of Canada and the
23 Information and Privacy Commissioner for British Columbia, Office of the Privacy Commissioner
24 of Canada (Apr. 25, 2019) (“Canada Report”) at ¶29.

25 ⁹³ *Id.* at ¶30 (emphasis omitted).

26 ⁹⁴ *Id.* at ¶136.

27 ⁹⁵ 2014 Facebook Platform Policy 7.4 (Oct. 22, 2014) (“FPP 7.4”) at 5; *see also* 2016 FPP (Aug.
28 28, 2016) (showing the policies did not change).

29 ⁹⁶ Canada Report at ¶132 (“Facebook indicates that these apps’ access to friends’ information was
subject to additional review and approval by Facebook’s partnership team.”)

1 Rose (“Rose”), Facebook’s Vice President of Partnerships and Platform Marketing,⁹⁷ who reported
2 directly to Sandberg, Facebook’s COO.⁹⁸

3 100. In fact, it took less than 24 hours for Rose’s partnership team to reject Kogan’s
4 application to seek users’ “likes” and other personal data for a one-time quiz app, on the grounds that
5 it violated Facebook’s stated developer policies.

6 101. Despite nominally rejecting Kogan’s application, Facebook nonetheless permitted the
7 Quiz App to collect all the “likes” of the installing users *and* the “likes” of all the users’ friends after
8 May 7, 2014. Facebook itself deliberately overrode its own policies. As a U.K. government report
9 explains, “Facebook rejected [Kogan’s] request on 7 May **2014** but allowed Dr. Kogan to continue
10 using version 1 of the API *in a manner inconsistent* with Facebook’s Developer Policy until May
11 **2015**.”⁹⁹ And as Kogan later testified, “there was not even a signed agreement initially. They gave
12 me the dataset without any agreement signed. It was just, ‘Here’s an email. Here’s the dataset.’”¹⁰⁰
13 Every “like” that the Quiz App collected for more than a year violated Facebook’s (stated) platform
14 policy: “Request only the data and publishing permissions your app needs.”¹⁰¹ Facebook knew the
15 app violated its own policies, as Facebook’s own “rejection” shows.

16 102. To explain the contradiction between Facebook’s words and actions, Kogan testified
17 that Facebook’s publicly-stated policies were not Facebook’s actual policies. He also testified that “I
18 don’t think they have a developer policy that is valid” and “For you to break a policy it has to exist
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21 ⁹⁷ Geoffrey A. Fowler, *WSJ(2/15) Facebook’s Web of Frenemies*, Dow Jones & Co., Inc. (Feb. 16, 2011).

22 ⁹⁸ Dawn C. Chmielewski, *Dan Rose, Facebook Executive Overseeing Partnerships, Is Leaving The*
23 *Company*, Deadline (Aug. 22, 2018).

24 ⁹⁹ U.K. Information Commissioner’s Office, *Investigation into the use of data analytics in political*
campaigns: Investigation Update (July 11, 2018) (“ICO Report”) at 23.

25 ¹⁰⁰ Signed agreement did not improve matters. In 2014, GSR sent documents to Facebook
26 purporting to give GSR the right to “disseminate, publish, transfer, append or merge with other
27 databases, *sell, license* . . . and archive” any user data that it collected. Julia Carrie Wong, *Congress*
tried to crack Zuckerberg – but Facebook still has all the power, Guardian (Apr. 10, 2018).

28 ¹⁰¹ FPP 7.4 at 5; *see also* 2016 FPP (Aug. 28, 2016) (showing policies didn’t change).

1 and *really* be their policy. The reality is that Facebook’s policy is unlikely to be their policy.”¹⁰²
 2 Similarly, he testified: “I mean, if somebody has a document that is not their policy, you cannot
 3 break something that is not really your policy.”¹⁰³

4 **5. Kogan’s Quiz App Harvests Data from Tens of Millions of**
 5 **Users and Their Friends After Defendants Promised that**
 6 **Access to User Friend Data Had Been Shut Down**

6 103. As detailed in the sections that follow, it has now been revealed that the underlying
 7 Facebook user data obtained by Cambridge Analytica was taken from Facebook *after* Zuckerberg
 8 and Sandberg’s April 2014 announcement that third-party access to such data was no longer allowed.
 9 Specifically, the app designed by Kogan was not even submitted to Facebook until May 2014 and
 10 did not begin harvesting the Facebook user data sold to Cambridge Analytica until after that date.

11 104. In other words, Kogan was one of the app developers who was – unbeknownst to the
 12 public – secretly grandfathered into the third-party information sharing program that defendants had
 13 told the public was discontinued months earlier.

14 105. This fact is acknowledged in the June 2014 contract that Kogan and Chancellor
 15 (through GSR) signed with Cambridge Analytica’s parent company, which stated: “GS’s method
 16 relies on a pre-existing application functioning under Facebook’s old terms of service. New
 17 applications are not able to access friend networks and no other psychometric profiling applications
 18 exist under the old Facebook terms.”¹⁰⁴

19 106. Further, in its complaint filed in connection with its \$100 million settlement with
 20 Facebook, the SEC confirmed that Kogan collected the data sold to Cambridge Analytica *after*

21 ¹⁰² Kogan testified to the House of Commons’ Digital, Culture, Media and Sport Committee in the
 22 U.K. on April 24, 2018 (“Kogan U.K. Test.”) at Q1966.

23 ¹⁰³ *Id.* at Q1967. Facebook’s own actions corroborate Kogan’s testimony and demonstrate that
 24 Facebook knew that Kogan’s app violated Facebook’s policy but permitted Kogan’s app to do so –
 25 Facebook’s partnership team “tested” his app via App Review, “rejected” his app, but then allowed
 the app to harvest users’ “likes” data and additional personal data in violation of its stated platform
 policies. Facebook’s data transfers via the Quiz App reveals the fact that it overrode its own
 decision to reject the Quiz App.

26 ¹⁰⁴ See House of Commons, Dig., Culture, Media and Sport Comm.: *Disinformation and ‘fake*
 27 *news’: Interim Rep.*, Background papers submitted by Christopher Wylie (July 29, 2018) (“Chris
 28 Wylie Background Papers”) at 84 of 122; see also U.K. Parliamentary Committee, Interim Report at ¶105.

1 Zuckerberg had publicly announced that access to user friends' data had been shut-off. The SEC
2 Complaint states:¹⁰⁵

3 *In the summer and early fall of 2014*, a business entity [*i.e.*, GSR] created
4 and controlled by the researcher [*i.e.*, Kogan] retained a surveying firm to recruit and
5 pay approximately 270,000 Facebook users to download the researcher's app and
6 take the personality survey. This enabled . . . [Kogan] to collect Facebook data from
7 both the 270,000 app users and many app users' friends, which collectively
8 amounted to tens of millions of Facebook users.

9 107. In sum, because Facebook was secretly giving Kogan continued access to user
10 friends' data in contravention of its public promises in April 2014 to shut-off that access, more than
11 87 million users had their data improperly harvested by Kogan without their knowledge or consent,
12 which Kogan then sold to Cambridge Analytica.

13 108. As Roger McNamee ("McNamee"), an early investor in Facebook and mentor to
14 Zuckerberg, stated, only "270,000 people signed up to take [Kogan's] test" – but Kogan "was able to
15 harvest data from 50 million people. And those people – all but the 270,000 who signed up for the
16 test – *did not give any permission.*"¹⁰⁶

17 109. In fact, as detailed below, Kogan and Chancellor (through GSR) were also given
18 whitelisted access to user friend data in May 2015 – *after even* Facebook's internal, secret deadline
19 to purportedly shut down user friend data.

20 **6. Cambridge Analytica's Quiz App Starts the First Wave of**
21 **Data Extraction from Facebook's Servers to Create a**
22 **Psychographic Model, and Psychographic Scores, Based on**
23 **Facebook "Likes"**

24 110. On May 9, 2014, Kogan emailed a Cambridge Analytica scientist a "good starting
25 shopping list" of "traits that can be predicted now" and included the OCEAN traits among others.
26 This email implies that Kogan would be able to access all the data that the Quiz App would need
27 "*now*," despite Facebook's rejection of the app just two days earlier:¹⁰⁷

28 ¹⁰⁵ SEC Complaint at ¶24.

¹⁰⁶ Interview of Roger McNamee by Noel King, *Facebook Is Losing Users' Trust, Tech Investor Says*, NPR (March 20, 2018).

¹⁰⁷ Matthew Rosenberg, Nicholas Confessore, Carole Cadwalladr, *How Trump Consultants Exploited the Facebook Data of Millions*, N.Y. Times (Mar. 17, 2018) (embedded email).

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111. By May 30, 2014, Kogan and Chancellor had founded GSR to put the Quiz App into action *and* Facebook had started sending data to the Quiz App, as Chris Wylie testified:¹⁰⁸

GSR is Kogan's company. There were several iterations of the Facebook harvesting project. It first started as a very *small pilot*, firstly to see, most simply, is this data matchable to an electoral register? One of the concerns was if you just collect somebody named John Smith, that could be anybody, so can you match that to this John Smith, on this street, in this city. We then *scaled out slightly to make sure that he could acquire data in the speed that he said that he could*. The first real pilot of it was a sample of *10,000 people* who joined the app. That was *in late May 2014*.

Because Facebook started to transfer its users' data by May 30, 2014, Rose's partnership team at Facebook must have overridden the app's app review rejection by this date at the latest.

¹⁰⁸ Wylie U.K. Test. at Q1317.

1 112. As noted above, on June 4, 2014, GSR entered into a contract with an affiliate of
2 Cambridge Analytica to download more data from Facebook’s servers via the Quiz App. Nix signed
3 the contract for the Cambridge Analytica affiliate.¹⁰⁹ Kogan and Chancellor signed for GSR:¹¹⁰

4 GS Data and Technology Subscription Agreement

5 The parties have signed this agreement on the date set out above.

6
7 SIGNED by 
8 DR ALEKSANDR KOGAN for and on
9 behalf of GLOBAL SCIENCE RESEARCH
10 LTD in the presence of:

11 Witness:
12 Signature : 
13 Name : Joseph Chancellor
14 Occupation : Co-Director, GSR
15 Address : 12 AINSWORTH PLACE CB2 2PG

16 113. The contract shows that GSR would collect Facebook “likes” to create computer
17 models that would assign personality scores to people who trusted the Facebook platform with their
18 “likes.” The “likes” were the key input to modelling personality scores, as the contract states that
19 after the “likes” data are “collected, models are built” that “use Facebook likes to predict peoples
20 personality scores.”¹¹¹

21 114. GSR and the Cambridge Analytica affiliate further recognized that the Quiz App was
22 the sole psychometric profiling app that would give “access to friend” networks. The contract states,
23 with regard to the Quiz App: “New applications are not able to access friend networks and no other
24 psychometric profiling applications exist under the old Facebook terms.”

25 ¹⁰⁹ Chris Wylie Background Papers at 80-81 of 122.

26 ¹¹⁰ Julie Carrie Wong, Paul Lewis Harry Davies, *How academic at centre of Facebook scandal tried*
27 *– and failed – to spin personal data into gold*, Guardian (Apr. 24, 2018); FTS Cambridge Complaint
28 at ¶¶14-15.

¹¹¹ Chris Wylie Background Papers at 84 of 122.

1 115. This fact is significant because it confirms that Cambridge Analytica could not have
2 acquired all of the users' subject "likes" from any *other source*.

3 116. The June 4, 2014 contract required GSR to harvest data from Facebook's servers in a
4 way that targeted Quiz App users (and their Facebook friends), but the scope of harvesting was
5 limited to 11 U.S. states at the time. The contract further specified that that GSR would harvest
6 Facebook profile data about the Quiz App installers (and their Facebook friends) who lived in 11
7 particular U.S. states, generate personality scores for these individuals, and then match these profiles
8 to U.S. voter records provided to GSR by SCL Elections. GSR would then send these matched
9 records along with the associated personality scores back to SCL Elections.¹¹²

10 **7. Facebook "Throttles" the Rate of Data Transferred from Its**
11 **Servers to GSR Via the Quiz App "Likes"**

12 117. By July 26, 2014, GSR – *i.e.*, Kogan and Chancellor – were required to deliver to
13 SCL psychographic profiles for 1.5 to 2 million people in the specified 11 U.S. states, and match
14 their psychographic profiles to voter records. The contract required the transferred data to comprise,
15 at a minimum, "raw data" sufficient to identify Facebook users' in real life – first and last name,
16 gender, and location. The contract also required GSR to deliver "modelled" big five OCEAN
17 personality scores (five scores per person), modelled republican party support, modelled political
18 involvement/enthusiasm score, and modelled political volatility scores. Facebook "likes" were the
19 key input to all of these "modelled" data: GSR used the "likes" to train an algorithm that would
20 assign personality scores to the "Facebook friends" who had never downloaded the Quiz App and as
21 a result never disclosed to the app any "Facebook friends" responses to GSR's personality quiz. The
22 algorithm inferred responses, in much the same way that Facebook's newsfeed algorithms infer what
23 users would like to read out of the trillions of potential pieces of information circulating throughout
24 the internet.

25 118. Kogan and Chancellor detailed the procedures they would follow in the contract:
26
27

28 ¹¹² FTS Cambridge Complaint at ¶¶14-15.

1 **Process Overview**

2 The approach has several steps:¹¹³

- 3 1. GS generates an initial “seed sample” using online panels.
- 4 2. GS uses its *battery of psychometric inventories* to investigate psychological, dispositional and/or attitudinal facets of the sampled respondents.
- 5 3. GS guides respondents through its *proprietary data harvesting technology* (GS Technology) and upon consent of the respondent, the GS Technology scrapes and retains the respondent’s Facebook profile *and a quantity of data on that respondent’s Facebook friends*.
- 6 7. The psychometric data from the seed sample, as well as the Facebook profile and Facebook friend data is run through a *proprietary set of algorithms that models* and predicts psychological, dispositional and or/attitudinal facets of each Facebook record.
- 7 8. The *output of step 4 is a series of scores for each record*.
- 8 9. GS receives a dataset from SCL and conducts a *matching exercise to append two million* (2,000,000) records with GS scores.
- 9 10. GS exports the matched records back to SCL.

10 119. In July 2014, Kogan and Chancellor ran into a problem at the third step of their
11 process when they were harvesting data from Facebook about the Quiz App’s users and their
12 Facebook friends. Facebook engineers “throttled” the data that Facebook’s servers were sending to
13 the GSR’s servers in the U.K.. Chris Wylie testified about this issue:¹¹⁴

14 **Christopher Wylie:** . . . I remember when – and I think this was around *July 2014* – Kogan was delayed for a couple of days because *Facebook had throttled the app, so that it could not pull as much data. There was some problem with pulling as much data at the same speed as before. He told me that he had a conversation with some engineers at Facebook.* I was not in those conversations. This is what he told me at the time. *Facebook would have known from that moment about the project, because he had a conversation with Facebook’s engineers,* or at least that is what he told me. I do not know if that is entirely true or not, but that is what he told me.

15 GSR worked out this problem with Facebook’s engineers and transferred the resulting data to
16 Cambridge Analytica (via Nix and SCL). The fact that Facebook’s engineers observed the Quiz App
17 taking too much data is important because it shows – consistent with the app review rejection – that

18 _____
19 ¹¹³ Chris Wylie Background Papers at 86 of 122.

20 ¹¹⁴ Wylie U.K. Test. at Q1336.

1 it was taking data the Quiz App did not need in violation of Facebook’s stated platform policies.
 2 And it shows the volume of data that the Quiz App did not need was so great that the data transfer
 3 alone set off internal alarm bells. But Facebook gave the Quiz App data that it did not need anyway.

4 **8. Cambridge Analytica Puts the First Two Waves of**
 5 **Misappropriated Data to Commercial Use, Targeting**
 6 **“Neurotic” People with Ads that Violate Facebook’s (Stated)**
 7 **Ads Policies**

8 120. On July 26, 2014 – around the time that Facebook’s engineers throttled the data –
 9 Kogan revealed to Facebook that the Quiz App had a commercial purpose.¹¹⁵ Nix had agreed to pay
 10 the Kogan-Chancellor GSR company 75 cents for each voter record that they could match with
 11 OCEAN scores in the 11 U.S. states that they were targeting at the time.¹¹⁶ Cambridge Analytica
 12 started making money from the data over summer and fall 2014.

13 121. During that time, Cambridge Analytica’s biggest customers were a pair of political
 14 action committees (“PACs”) that paid Cambridge Analytica \$811,025 in fees.¹¹⁷ Cambridge
 15 Analytica was “owned almost entirely”¹¹⁸ by Mercer, who contributed \$1 million to each PAC that
 16 paid Cambridge Analytica’s fees.¹¹⁹ An advisor to one of those PACs later shared a presentation that

17 ¹¹⁵ Canada Report at ¶31 (“On July 26, 2014, Dr. Kogan updated the description of the [Quiz] App
 18 on Facebook removing the statement that it would not use the data collected for commercial
 19 purposes.”).

20 ¹¹⁶ Chris Wylie Background Papers at 86 of 122. Nix then billed a variety of customers \$1.6 million
 21 during 2014 and into early 2015; his largest customer during this time was the John Bolton Super
 22 PAC (\$703,025 paid to Cambridge Analytica). *Vendor/Recipient Profile Cambridge Analytica*,
 23 opensecrets.org (2014); *Vendor/Recipient Profile Cambridge Analytica*, opensecrets.org (2016). The
 24 Bolton PAC’s largest donor was Robert Mercer (\$1,000,000) in 2014. *John Bolton Super PAC*,
 25 opensecrets.org (2014). Mercer funded the Cambridge Analytica Facebook data harvesting project
 26 and was the company’s majority shareholder. Wylie U.K. Test. at Q1273. Mercer’s ownership
 27 facilitated Cambridge Analytica’s U.S. political work because foreign nationals (like Nix) generally
 28 are not permitted to make donations in U.S. elections. *Foreign nationals*, Federal Election
 Commission of the United States of America (June 23, 2017).

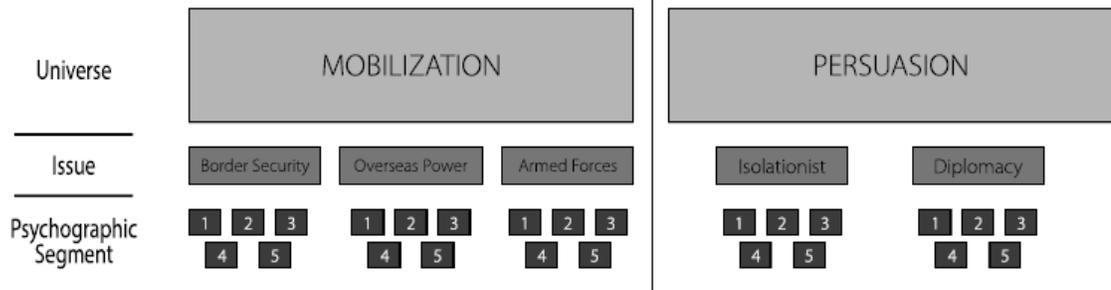
¹¹⁷ *Vendor/Recipient Profile Cambridge Analytica*, opensecrets.org (2014).

¹¹⁸ Matthew Rosenberg, Nicholas Confessore, Carole Cadwalladr, *How Trump Consultants Exploited the Facebook Data of Millions*, N.Y. Times (Mar. 17, 2018).

¹¹⁹ *Ending Spending Action Fund*, opensecrets.org (2014) (Ending Spending); *John Bolton Super PAC*, opensecrets.org (2014).

1 Cambridge Analytica had made to one of those PACs, called the John Bolton Super PAC, with the
 2 media.¹²⁰ That PAC supported a number of self-described conservative politicians.

3 122. Cambridge Analytica’s presentation to the PAC emphasized its psychographic
 4 targeting:



10 Finally, the issue groups have been subdivided according to psychographic personality traits, with voters divided into
 11 five segments according to their dominant personality traits, which are outlined in this document.

12 Each psychographic segment can be targeted on its own, or at the same time as a segment with the same number in
 13 a different issue cluster.

14 123. The five “dominant personality traits” are the OCEAN traits, per the presentation.
 15 The presentation described the OCEAN traits, explaining, for example, that “[p]eople with high
 16 neuroticism have long, intense reactions to stimuli.” The presentation then gave an example of person
 17 who Cambridge Analytica graded as highly neurotic: “Pamela’s friends would describe her as the
 18 life of the party, and she loves being around other people. On the inside, however, she has a lot of
 19 fears and worries about her security.” These fears and worries informed the kinds of ads that
 20 Cambridge Analytica would pay Facebook to send to Pamela.

26 _____
 27 ¹²⁰ Alexander Zemlianichenko, *Inside John Bolton Super PAC’s deal with Cambridge Analytica*,
 28 The Center for Public Integrity (July 16, 2018); John Bolton Super Pac, *CA Political Psychographic
 Messaging Report*, Cambridge Analytica (embedded 24-page presentation).

1 **E. Facebook Transfers Approximately 17.1 Billion Facebook “Likes” –**
 2 **and the Users’ Names, Locations, and Other Personally Identifiable**
 3 **Facts – from Its Servers to GSR Via the Facebook Quiz App**

4 **1. In 2015 Cambridge Analytica Gets “Whitelisted” by Facebook**
 5 **for Continued Access to User Friend Data**

6 124. Cambridge Analytica’s customers were pleased with the results that psychographic-
 7 segmented custom audiences and custom messaging delivered in 2014 with regard to the 11 U.S.
 8 states that they had targeted. This success underlay Cambridge Analytica’s next actions.

9 125. By January 31, 2015, with the U.S. presidential contests looming, Cambridge
 10 Analytica entered into a new contract with GSR to buy more data, this time focusing on Facebook
 11 users in the 39 states that Cambridge Analytica was not already using.¹²¹ GSR provided personality
 12 scores to SCL Elections for the remaining 39 U.S. states. This step required Facebook data from
 13 approximately 250,000-270,000 people who installed the Quiz App and a subset of their “**50-65**
 14 **million**” Facebook friends – specifically, “**30 million identifiable**” users whom GSR could match to
 15 voter records.¹²² Cambridge Analytica paid GSR approximately £200,000 for that data and related
 16 services.¹²³ But Cambridge Analytica wanted more data. On or about April 30, 2015, Kogan and
 17 Chancellor’s GSR company supplemented their agreement with SCL Elections to that end.

18 126. The supplement called for GSR to harvest more data from Facebook’s servers –
 19 namely, whether the 30 million people who were the subject of the January 2015 agreement had
 20 “liked” any of 500 Facebook group pages that Cambridge Analytica had identified for GSR.¹²⁴ The
 21 data were for the upcoming U.S. presidential campaigns.¹²⁵ But harvesting all the 29-plus million

22 ¹²¹ FTS Cambridge Complaint at ¶27.

23 ¹²² *Id.* at ¶26.

24 ¹²³ Kogan U.K. Test. at Q1925.

25 ¹²⁴ FTS Cambridge Complaint at ¶27.

26 ¹²⁵ In 2015, a number of political candidates and organizations began preparing their campaigns for
 27 the upcoming U.S. presidential primaries and general election. Mercer supported Senator Ted Cruz
 28 early in the in the primaries and the Cruz campaign paid Cambridge Analytica \$5.8 million. *Sen.*
Ted Cruz – Texas, opensecrets.org (2016) (Cruz expenditures). A political action committee that
 Mercer funded with Facebook Board Member Peter Thiel (\$1 million given) and others paid
 Cambridge Analytica \$5.6 million during this time. *Vendor/Recipient Profile Cambridge Analytica*,
 opensecrets.org (2016) (Cambridge Receipts); *Keep The Promise I/Make America Number 1*,
 THIRD AMENDED CONSOLIDATED CLASS ACTION COMPLAINT FOR VIOLATIONS OF THE

1 “friends” likes with regard to the 500 pages presented yet another serious problem from GSR and
2 Cambridge Analytica’s point of view.

3 127. As discussed above, Facebook had publicly announced that access to user friend data
4 would be shut off on April 30, 2014. Internally, however, Facebook decided to nevertheless give
5 existing app developers continued access to user friend data for another year without getting direct
6 permission. The internal Facebook deadline to shut down this continued access was April 30, 2015.

7 128. But, even after the April 30, 2015 internal Facebook deadline passed, Facebook
8 continued to grant GSR access to user friend data without the permission of those friends. For
9 example, after May 5, 2015, the Quiz App harvested 500 page “likes” from the 250,000-270,000
10 Facebook Quiz App installers and their 29 million-plus Facebook “friends.” Cambridge Analytica’s
11 former Business Development Director Brittany Kaiser (“Kaiser”) testified about this subject:¹²⁶

12 [U.K. MP] Ian C. Lucas: We know that there was contact between Facebook
13 and Cambridge Analytica about the use of data. I think it was in 2015, from
14 memory. Did you know about that at the time?

15 [Former Cambridge Analytica employee] Brittany Kaiser: Yes. The first time
16 that I heard anything about Facebook data, in writing or even in a personal
17 conversation, which didn’t have to do with those personality quizzes, was late April
18 2015. Facebook had announced to all of its clients, and therefore to its clients’
19 clients, that it was going to close its personal data API, which allowed apps and their
20 clients to have access to this data. Before the closing of this access, my chief data
21 officer gave me and two of my colleagues a list of thousands of different groups on
22 Facebook and asked us to *choose 500* of them that we thought having information of
23 the individuals *who like* those groups *would be useful in our modelling* for our new
24 commercial business, which I was helping grow. So we chose 500 of those groups
25 and *turned that into what I suppose is now GSR*, although I wasn’t aware of who we
26 were getting them from at the time, in order to get the data of those individuals *who*
27 *liked the groups that we chose*. We received that data and *turned in that request on*
28 *5 May, 2015*. If Facebook actually closed that API in April, either a company
contracted with Facebook was contravening their legal obligations or they were
selling us old data – I am not sure.

129. Kaiser provided written testimony also confirming that, “in May 2015,” Facebook
allowed Cambridge Analytica to harvest users’ friends data – in particular “data related to the people

opensecrets.org (2016) (donors to Keep The Promise I/Make America Number 1). The PAC was
known as the “Keep The Promise I/Make America Number 1” PAC – Peter Thiel donated
\$1,000,000 on October 26, 2016. *Id.*

¹²⁶ Kaiser testified to the House of Commons’ Digital, Culture, Media and Sport Committee in the
U.K. on Apr. 17, 2018 (“Kaiser U.K. Test.”) at Q1595.

1 who had liked [certain] groups” – *after* Facebook had supposedly closed the “friends data”
2 loophole.¹²⁷

3 130. Other facts corroborate Kaiser’s testimony. For example, the SEC Complaint
4 confirmed this continued access in May 2015.¹²⁸ Canadian authorities investigated Facebook’s
5 conduct in the Cambridge Analytica matter and likewise found: “*According to Facebook*, the [GSR]
6 App ceased *receiving* information about [installing users’ “friends”] *in May 2015*.”¹²⁹

7 131. There is no dispute that by April 30, 2015, Defendants had purportedly shut down
8 access to user friend data. So it should have been impossible for GSR to collect the third wave of
9 data in May 2015. But, as discussed above, Facebook – with Zuckerberg and Sandberg’s knowledge
10 and direct involvement – had a secret program in place that gave third parties, including app
11 developers like GSR, whitelisted access to user friend data after the publicly-announced purported
12 April 30, 2014 cut-off date and the internal Facebook deadline of April 30, 2015.

13 132. Facebook testimony and internal documents demonstrate that Facebook did, in fact,
14 “whitelist” a number of apps like Quiz App around the same time that Facebook whitelisted the Quiz
15 App.¹³⁰

16 133. A Facebook policy manager, Allison Hendrix, gave testimony on this subject in the
17 Six4Three Litigation.¹³¹ Hendrix was asked at her deposition to review a Facebook “standard
18 form[]” titled “Private Extended API addendum” with parenthesis noting its version,
19
20

21 ¹²⁷ “Kaiser Stmt.” refers to the written statement Kaiser provided for the Fake News Inquiry to
British Parliament on April 4, 2017. Kaiser Stmt. at 6.

22 ¹²⁸ SEC Complaint at ¶25 (“By the end of May 2015, the researcher had transferred this information
23 to Cambridge.”).

24 ¹²⁹ Canada Report at ¶¶32, 113 (The report explains that the term “Affected Users” refers to the
“friends” of users who had installed the app.).

25 ¹³⁰ See June 21, 2017, Highly Confidential Deposition Transcript of PMQ of Facebook, Inc., Allison
26 Hendrix (“Hendrix Deposition”) in the Six4Three Litigation matter; see also Six4Three Documents,
27 Ex. 93 at FB-00043884-89 (“Confidential” March 16, 2015, Facebook Private Extended API
Addendum between Facebook, Inc. and Nuance Communications, Inc.).

28 ¹³¹ Hendrix Deposition.

1 “(v.01.29.20.15).”¹³² The contract at issue in that case, between Facebook and a company called
2 “Nuance,” was dated March 16, 2015, a few weeks before Facebook whitelisted GSR’s Quiz App.

3 134. Facts show that the Nuance contract was similar to the contract of special privileges
4 that Facebook extended to GSR with respect to the Quiz App. An investigation by *The Wall Street*
5 *Journal* later confirmed that Nuance was one of the apps that Facebook whitelisted.¹³³ This means
6 that the Nuance contract – one of Facebook’s “standard forms” as Hendrix testified – would have
7 been substantially the same as the contract that GSR executed with Facebook to secure “friends
8 data” after Facebook purportedly cut-off access on April 30, 2014 – after that date, GSR would need
9 secret APIs to get the “friends data.” The form whitelisting agreement defines the “Private Extended
10 API[s]” as “a set of API’s provided by Facebook to Developer . . . *to retrieve data* or functionality
11 that is *not generally available* under Platform,” which, in this case, included the “likes” of the
12 “friends” of the people whom GSR paid to download and take a personality quiz via the Quiz App.

13 135. *The Wall Street Journal’s* investigation into whitelisting uncovered the fact that
14 Facebook whitelisted a number of apps, reporting: “Facebook officials said the company struck a
15 small number of deals with developers largely to improve the user experience.”¹³⁴ *See infra* §IV.C.
16 The facts show that GSR’s Quiz App was one of the special apps that Facebook gave continued
17 access to “friends data” after even its internal April 30, 2015 deadline to shut this access down
18 completely.

19 136. Facebook’s standard whitelisting agreement shows that it tried to conceal the
20 program:¹³⁵

21
22 ¹³² *See id.* at 228:16-25.

23 ¹³³ Deepa Seetharaman & Kirsten Grind, *Facebook Gave Some Companies Special Access to*
24 *Additional Data About Users’ Friends*, Wall St. J. (June 8, 2018).

25 ¹³⁴ Facebook made similar statements in response to written questions from the U.S. Senate. Yet, in
26 responding to the question: “Do you know roughly how many executed Private Extended API
27 Addendum agreements Facebook has entered into?” at her confidential deposition, Hendrix testified:
28 “I don’t track the specific number, but I can tell you that there’s definitely many, many, many.” *See*
Hendrix Deposition at 230:8-23.

¹³⁵ *See* Six4Three Documents, Ex. 93 at FB-00043885.

1 Confidential Information. Developer agrees that *the existence* and content of
 2 the Private Extended APIs, the Private Extended API Guidelines and its use of
 3 Private Extended APIs is deemed to be confidential information of FB and Developer
 4 will maintain the same in strict confidence and not to disclose the same to any third
 5 party (other than agents and contractors for the sole purpose of providing services to
 6 Developer hereunder) or use the same for any purpose other than its performance
 7 under the Agreement. The obligations contained in this paragraph *will survive any*
 8 *termination or expiration* of the Agreement.

9 In sum, Facebook “whitelisted” the GSR app and a number of similar apps then used form
 10 agreements to prevent GSR or anyone else from disclosing the existence of whitelisting. Critically,
 11 this was the data that Cambridge Analytica purchased from GSR.

12 2. Facebook Opens a Non-Public Investigation into Cambridge 13 Analytica, Internally Calling the Company “Sketchy”

14 137. On September 22, 2015, Facebook began an internal investigation into Cambridge
 15 Analytica because this third party was flagged as receiving vast amounts of Facebook user data.
 16 Facebook’s internal communications show Facebook’s political team in Washington D.C. warned a
 17 group of Facebook employees, that a “sketchy (to say the least) data modeling company [Cambridge
 18 Analytica] has penetrated our market deeply”:¹³⁶

19 CREATED Sep 22, 2015 9:27 am by H [REDACTED] [REDACTED]

20 DESCRIPTION Hi [REDACTED] -

21 Our team has been spending a lot of time lately attempting to clarify to clients in the political space how our policies apply to
 22 pitches coming from vendors regarding matching social data to voter files. You’ll recall TrendPo using scraped engager
 23 audiences last year to create custom audiences - we suspect many of these companies are doing similar types of scraping,
 24 the largest and most aggressive on the conservative side being Cambridge Analytica (<http://ca-political.org/what-we-do/>), a
 25 sketchy (to say the least) data modeling company that has penetrated our market deeply. Because the frequency with which
 26 this is coming up has increased drastically in the past few weeks, we’d like to work with your team to make sure we have
 27 clear channels between our teams. Specifically, we need answers to the following questions:

28 1. Can we develop template messaging to advise clients on how our policies apply to these types of services? Does this
 already exist? (I believe I remember enforcement relying on a few different policies last year).

2. Can you help us investigate what Cambridge specifically is actually doing?

29 138. Facebook redacted the name of the person (“H” and “I”) who wrote to open the
 30 investigation into Cambridge Analytica, but the substance of the message indicates that the person
 31 worked on Facebook’s political team in Washington DC.

32 139. Others on Facebook’s political team were involved in the investigation:¹³⁷

33 ¹³⁶ Joint Consent Mot. Regarding Motion to Seal, *District of Columbia v. Facebook Inc.*, No. 2018
 34 CA 008715 B (D.C. Super. Ct. July 25, 19), Ex. A (Sept. 2015-May 2016 Facebook email thread)
 35 (“Sept. 2015-May 2016 Facebook email thread”) at 1.

Sep 29, 2015 8:57am

M [REDACTED] N [REDACTED]

[REDACTED], Following up on [REDACTED]' task here - we are getting several pointed questions from the political partner space around what is in bounds versus what is out of bounds. Many companies seem to be on the edge- possibly over. Would it be worth setting up a call to chat through the boundaries? or can you take a look at the cited examples and weigh in on the methods/tolerance for them? Thank you!

Sep 29, 2015 7:16am

140. Facebook’s platform policies team got involved in the investigation, writing that it would be very difficult for Cambridge Analytica to use Facebook users’ data for political purposes in a way that complied with Facebook’s policies “mainly because it seems to access data that isn’t explicitly being permitted” and triggers a violation of Facebook Platform Policy (FPP) 7.4: “Request only the data and publishing permissions your app needs.”¹³⁸ But the policy team in Menlo Park needed an “App ID” (an internal app identification number) to figure out what Cambridge Analytica was doing:¹³⁹

Sep 30, 2015 8:02am

A [REDACTED] E [REDACTED] C [REDACTED]

Hello, thanks for surfacing this very interesting question. To start: could you provide App IDs and App names for the apps that are engaging in this scraping of user data?

tdr-Need more info before can offer anything more definitive; but my hunch is that these apps' data-scraping activity is likely non-compliant (see FPPs cited below).

As for the website itself, I dug around a bit and couldn't find any very salient red flags. However, in light of our data-sensitivity-related policies, the following Facebook Platform Policies (FPPs) come to mind:

FPP3.9 - Don't sell, license, or purchase any data obtained from us or our services.

FPP3.10 - Don't transfer any data that you receive from us (including anonymous, aggregate, or derived data) to any ad network, data broker or other advertising or monetization-related service.

FPP7.4 - Request only the data and publishing permissions your app needs.

There are also more FPPs related to data stuff here: <https://developers.facebook.com/policy/#data>

As for your questions:

(1) I don't believe we currently have any language/boilerplate messaging re: political analysis/data-scraping apps.

(2) Please provide App IDs, I'd be happy to investigate their app's activity.

(3) Without App IDs to dig deeper, I can't say exactly what they're doing, but my initial hunch is that "automatically linking emails in your database to FB accounts" would be against our policies (whether for FPP or otherwise), mainly because it seems to access data that isn't explicitly being permitted access by the user (see FPP7.4 above). It also brings to mind the following:

FPP3.11 - Don't put Facebook data in a search engine or directory, or include web search functionality on Facebook.

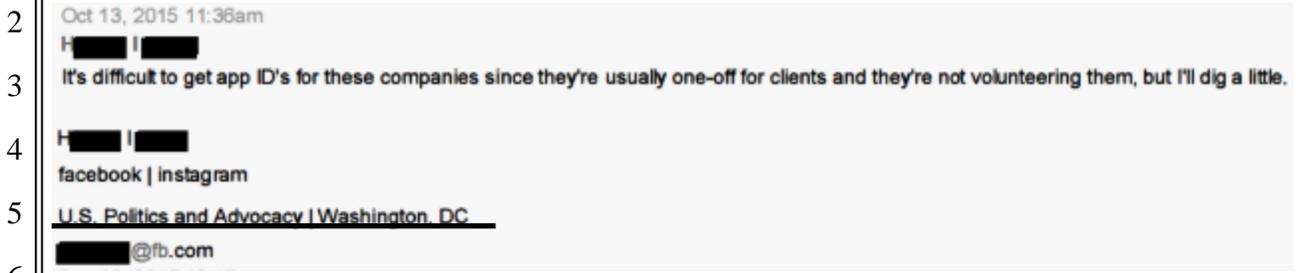
With all the above-mentionend FPPs in mind, I imagine it would be "very" difficult to engage in data-scraping activity as you described while still being compliant with FPPs.

¹³⁷ *Id.*

¹³⁸ FPP 7.4 at 5.

¹³⁹ Sept. 2015-May 2016 Facebook email thread at 10.

1 141. Yet the Washington DC political team did not have the relevant App IDs:



7 This message shows that the “U.S. Political and Advocacy” team in Washington DC started the
 8 Cambridge Analytica investigation – “H” and “I” requested the Cambridge Analytica investigation.
 9 And the person whom Facebook anonymized as “M” and “N” was that person’s manager – as she
 10 was the manager of Facebook’s political sales team overall:



14 There are facts that “M” and “N” was Katie Harbath (“Harbath”), who led a team at Facebook that
 15 sold ads and provided other services to Facebook’s Republican clients. ¶¶191, 268 n.282.

16 142. Facebook’s investigation into Cambridge Analytica’s data misuse continued.

17 **3. Facebook Meets with GSR’s Principals – Kogan and**
 18 **Chancellor – to Discuss What They Learned from the Work**
They Did for Cambridge Analytica

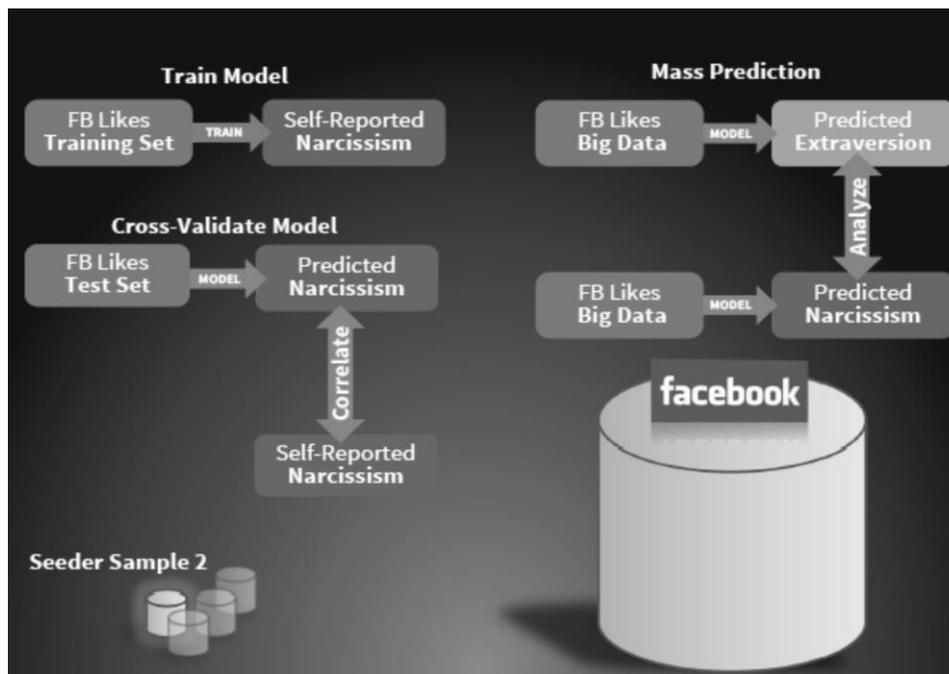
19 143. In late 2015, Chancellor and Kogan – GSR’s co-founders – were working together at
 20 Cambridge University. The two sat on a panel of four people at a workshop called “Big Data
 21 Methods for Social Science and Policy – Interdisciplinary Workshop Programme” held on
 22 September 24, 2015.¹⁴⁰

23 144. Kogan chaired the panel and the three others made presentations. Chancellor made a
 24 presentation that bears a strong resemblance to the work that he and Kogan did for Cambridge
 25 Analytica. Chancellor explained how he trained a computer model via machine learning to discern
 26 the relationship between: (1) survey respondents’ “FB Likes”; and (2) the survey responses that they

27 ¹⁴⁰ *Big Data Methods for Social Science and Policy – Interdisciplinary Workshop Programme*,
 28 Cambridge Centre for Data-Driven Discovery (Sept. 24, 2015).

1 reported. Chancellor validated the model and then used the model to find Facebook users with
2 similar personality traits based upon their “FB Likes.”

3 145. Chancellor illustrated how the methodology worked in several slides, including this
4 one:¹⁴¹



16 Chancellor also gave examples of the kinds of personality traits that the “FB Likes” model assessed,
17 including the big five “OCEAN” personality characteristics. The presentation described, in
18 substance, what he and Kogan had done for Cambridge Analytica over the preceding months.

19 146. Chancellor was not the only researcher working under Kogan who presented that day.
20 Rui Sun also presented a paper – one that Kogan would later tell Facebook was based upon data that
21 Facebook had transferred to GSR via the Quiz App. The paper “was prepared with a graduate
22 student in [Kogan’s] lab, other academic collaborators, and members (current and former) of the
23 Protect and Care team at Facebook that contains data collected from the [Quiz App]” and the paper
24 was “*reviewed and approved by Facebook’s internal review team.*”¹⁴²

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26 ¹⁴¹ Joseph Chancellor, Presentation, *Combining Data- and Theory-Driven Approaches Using Large, Anonymous Datasets of Behavior*, University of Cambridge (2015).

27 ¹⁴² Stimson Letter at 31 of 40 (The “Stimson Letter” refers to the letter from Rebecca Stimson, Head
28 of Public Policy, Facebook UK, to Damian Collins, Chair, Digital, Culture, Media and Sport
Committee, United Kingdom House of Commons, dated May 14, 2018. Attached, at pages 29 and
THIRD AMENDED CONSOLIDATED CLASS ACTION COMPLAINT FOR VIOLATIONS OF THE
FEDERAL SECURITIES LAWS - 5:18-cv-01725-EJD

1 147. In early November 2015 – approximately six weeks after Kogan, Chancellor and Sun
2 presented their Facebook “likes” based research at Cambridge University – Facebook paid Kogan to
3 teach Facebook what he had learned from the Cambridge Analytica dataset.

4 148. Kogan told *60 Minutes* that Facebook paid him to present what GSR found from the
5 Cambridge Analytica data to Facebook in November 2015: “I even did a consulting project with
6 Facebook in November 2015, and what *I was teaching them* was lessons I learned from working
7 with this dataset that we had collected for Cambridge Analytica, so I was explaining, “Here’s kinda
8 *what we did*, and here’s what *we learned*, and here’s how you could apply it internally to help you
9 with surveys and survey predictions and things like that.””¹⁴³ Kogan spent a full week teaching
10 Facebook what he and Chancellor did on the Cambridge Analytica project – he “served as a paid
11 consultant [to Facebook] for a week in November 2015.”¹⁴⁴ Kogan and Chancellor ““did everything
12 together”” on the Cambridge Analytica project.¹⁴⁵

13 149. Following Kogan’s presentations to Facebook about the Cambridge Analytica dataset
14 – presentations that Chancellor likely helped make – Facebook hired him. “Chancellor’s first day
15 [as a full-time employee] at Facebook was November 9, 2015.”¹⁴⁶

16 150. Chancellor then shared his “facebook research” on a Facebook page:¹⁴⁷
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19 33 are: June 11, 2016 GSR and Kogan certifications; June 24, 2016 settlement agreement with
20 Kogan and GSR; and (undated) certification by SCL Elections Limited, but none from “Cambridge
Analytica.”).

21 ¹⁴³ Julie Carrie Wong, Paul Lewis Harry Davies, *How academic at centre of Facebook scandal tried*
22 *– and failed – to spin personal data into gold*, Guardian (Apr. 24, 2018).

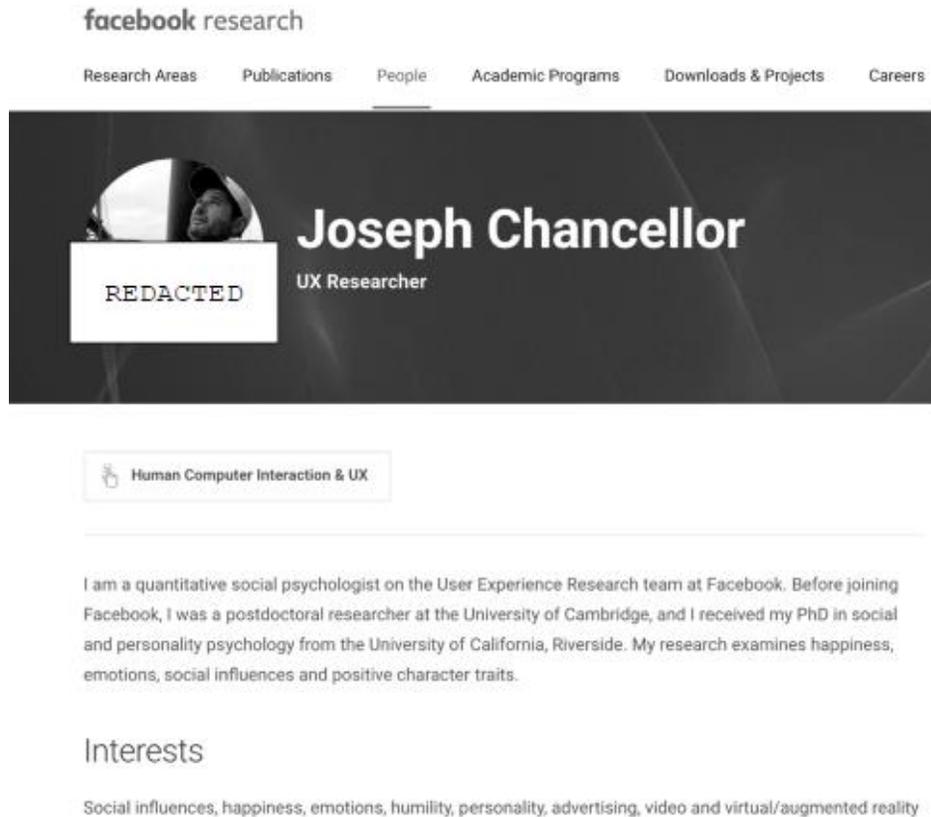
23 ¹⁴⁴ Kate Bubacz, *Cambridge Analytica Data Scientist Aleksandr Kogan Wants You To Know He’s*
Not A Russian Spy, BuzzFeed (Apr. 22, 2018).

24 ¹⁴⁵ Julie Carrie Wong, Paul Lewis Harry Davies, *How academic at centre of Facebook scandal tried*
25 *– and failed – to spin personal data into gold*, Guardian (Apr. 24, 2018).

26 ¹⁴⁶ Facebook, Responses to U.S. Senate Select Committee on Intelligence, Questions for the Record
addressed to Chairman Richard Burr (Oct. 26, 2018) at 2.

27 ¹⁴⁷ Alex Pasternak, *A Facebook scientist tied to Cambridge Analytica has quietly left Facebook*, Fast
28 Company (Sept. 6, 2018).

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151. Chancellor’s resume demonstrates that Facebook paid him to do the same kinds of things working for Facebook as he did at GSR. His resume discloses that he worked with a number of internal Facebook teams, and taught courses on surveys (like those that the GSR Quiz App administered) and how to analyze them.¹⁴⁸ It shows he worked at the company’s headquarters in Menlo Park, and: (1) “Produced independent research for the Core App Monetization, Video, and Social VR product teams with research methods including interviews, intercepts, surveys, log analysis, and experiments”; (2) “Worked inside product teams and cross-functionally with design, product management, data science, content strategy, engineering, and marketing”; and (3) “Became a thought-leader within specific product areas, such as user sentiment to advertising and video ads, mentored new researchers, taught courses on visualization, SQL, data analysis, and survey analysis.”¹⁴⁹

¹⁴⁸ Resume for Joseph Chancellor, LinkedIn at 1.

¹⁴⁹ *Id.*

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4. ***The Guardian Links Cambridge Analytica and GSR on December 11, 2015 in Reporting “Millions” of Users’ Data Exposed, but GSR Minimizes the Subject Data to a “Couple Thousand” Anonymous Surveys***

152. Facebook’s investigation into Cambridge Analytica stalled until December 11, 2015. Early that morning, *The Guardian* ran its first story on the Cambridge Analytica data harvesting matter, alleging that Cambridge Analytica had acquired millions of Facebook users’ “likes” for psychological modeling that Cruz’s presidential campaign was deploying to “gain an edge over Donald Trump” in the primaries, without the users’ knowledge or consent.¹⁵⁰

153. Regarding the nature and volume of subject data, *The Guardian* reported:

In the race to advance data-driven electioneering strategies pioneered by successive Obama campaigns, Cruz has turned to Cambridge Analytica for its unparalleled offering of psychological data *based on a treasure trove of Facebook “likes”*, allowing it to match individuals’ traits with existing voter datasets, such as who owned a gun.

* * *

Ted Cruz’s presidential campaign is using psychological data based on research spanning *tens of millions* of Facebook users, harvested largely without their permission, to boost his surging White House run and gain an edge over Donald Trump and other Republican rivals, the Guardian can reveal.

* * *

[GSR/Kogan] used Amazon’s crowdsourcing marketplace Mechanical Turk (MTurk) to access a large pool of Facebook profiles, hoovering up *tens of thousands* of individuals’ demographic data – names, locations, birthdays, genders – as well as their Facebook “likes”, which offer a range of personal insights.

* * *

Crucially, Kogan also captured the same data for each person’s unwitting friends. For every individual recruited on MTurk, he harvested information about their friends, meaning the dataset ballooned significantly in size. Research shows that in 2014, Facebook users had an average of around 340 friends.

154. Kogan disputed and minimized the issue, as reported by *The Guardian*.¹⁵¹

In an email, Kogan said he was unable to explain in detail where all the data came from, as he was restricted by various confidentiality agreements. He said SCL is no longer a client.

¹⁵⁰ Dec. 2015 *Guardian* article.

¹⁵¹ *Id.*

1 He said that *while GSR* often used MTurk for data collection, it “*never*
 2 *collected more than a couple thousand responses* on MTurk for any one project, or
 3 even across all projects for a single client – the *vast majority of our MTurk data*
collection as a company is in the form of surveys only.” He said GSR stores
 Facebook data *anonymously*.

4 Kogan explained that separate from his university role, his private company
 5 undertook various commercial ventures relating to data analysis. He said that *when*
GSR collect Facebook data, the terms detail the use that information collected will
 6 be put to and *make clear* to participants that they are *giving GSR full permission* to
 use the data and user contribution for any purpose.

7 155. Here, GSR’s comments contradict *The Guardian’s* allegations to the extent the
 8 allegations can be read to suggest that tens of millions of Facebook’s users’ data were harvested
 9 inappropriately, if at all. The Kogan /GSR remarks suggest that a “couple thousand” (about 2,000)
 10 users’ data were at issue, that they had given permission to GSR to collect largely “survey” data (not
 11 “likes”), and that survey results were anonymized somehow. GSR said nothing about the kind of
 12 data – if any – that the company gave to SCL, noting that they were no longer a client. Thus, the
 13 only entity to go on the record in any substantive way – Kogan/GSR – painted a relatively benign
 14 picture of the amount and nature of data at issue.

15 156. Neither Cambridge Analytica, nor the Cruz campaign nor Facebook confirmed or
 16 denied any of the story’s allegations or any of Kogan’s statements. A Cruz campaign spokesperson
 17 suggested that nothing untoward had occurred: “*My understanding* is all the information is
 18 acquired legally and ethically with the permission of the users when they sign up to Facebook.”¹⁵²

19 157. After the initial report ran in the morning of December 11, 2015, a Facebook
 20 spokesman went on the record, and *The Guardian* updated its story accordingly:¹⁵³

21 After this article was published, Facebook said the company was “carefully
 22 investigating this situation” regarding the Cruz campaign.

23 “[M]isleading people or misusing their information *is a direct violation of*
 24 *our policies* and we will take swift action against companies that do, including
 25 *banning those companies from Facebook and requiring them to destroy* all
 improperly collected data,” a Facebook spokesman said in a statement to the
 Guardian.

26 ¹⁵² *The Guardian* reported that Cambridge Analytica’s CEO, Nix, “did not respond to a request for
 27 comment.” When *The Guardian* first ran its story at 4:30 a.m. (PST), Facebook did not have a
 comment: “A spokeswoman for Facebook declined to comment.” *Id.*

28 ¹⁵³ *Id.*

1 By the time that *The Guardian's* December 11, 2015 story ran, of course, Facebook had already
 2 known much of what Cambridge Analytica was doing. After *The Guardian* raised publicity about
 3 GSR and Cambridge Analytica, more information began to surface inside of Facebook.

4 **5. Facebook's Investigation Expands as Numerous Facebook 5 Employees Become Aware of the Investigation**

6 158. Before *The Guardian* ran its report December 11, 2015 report, Facebook's
 7 communications team was evasive with *The Guardian*.¹⁵⁴

8 Before we published that story in 2015 [the December 11, 2015 story], I had
 9 approached Facebook's public relations representatives in London *to inform them of*
 10 *the allegations*. I asked them a series of questions, including: "Is Facebook
 11 concerned that highly personal data about a large set of its users is now being
 12 exploited for experimental political campaigning purposes?" *They didn't answer*.
 13 After declining to comment on the record, they emailed a few lines on background:
 14 "Facebook has a clear data use policy that makes it clear how the information people
 15 choose to add to Facebook is used." Their repetition of the word "clear" only made
 16 this feel more doubtful.

17 159. After *The Guardian* ran its report, Facebook swung into public relations ("PR")
 18 damage control. The same communication string that Facebook employees had opened about
 19 Cambridge Analytica on September 22, 2015 reflected the new status of the investigation to a "hi
 20 pri" – *i.e.*, high priority – issue, noting "[w]e need to figure this out ASAP," as the following
 21 internal Facebook communications show:¹⁵⁵

22 Dec 11, 2015 10:06am
 23 CC [REDACTED] DC [REDACTED]
 24 Hi everyone – this is hi pri at this point. This story just ran in the Guardian and is now prompting other media requests. We need to sort this out ASAP.
 25 Thank you!
 26 Dec 11, 2015 9:45am
 27 M [REDACTED] N [REDACTED]
 28 [REDACTED], J [REDACTED] - Can you expedite the review of Cambridge Analytica or let us know what the next steps are? Unfortunately, this firm is now a PR issue as
 this story is on the front page of the Guardian website - <http://www.theguardian.com/>. /senator-ted-cruz-president-cam ... CC [REDACTED] DC [REDACTED] is fielding
 comms policy requests and concerns.
 Dec 11, 2015 9:34am

29 160. Facebook's Cambridge Analytica investigation became high priority because it was
 30 now a "PR issue," such that "comms policy" at Facebook was expressing "requests and concerns."
 31 Facebook's PR team started fielding internal PR issues at the same time. For example, Facebook's

32 ¹⁵⁴ Harry Davies, *Facebook told me it would act swiftly on data misuse – in 2015*, Guardian (Mar.
 33 26, 2018).

34 ¹⁵⁵ Sept. 2015-May 2016 Facebook email thread at 7.

1 PR message group reported the fact that Facebook’s research team worked with Kogan. In other
2 words, it appeared as though Facebook had paid Kogan in the past for his expertise:

3 Dec 11, 2015 2:18pm

4 M ██████ N ██████

Also, importantly: according to the Wait, What thread and also an email from WW ██████ X ██████ - it sounds like Facebook has worked with this "Aleksandr Kogan" on research with the Protect & Care team.

5 Dec 11, 2015 1:04pm

6 The “Wait, What thread” specified in the above communication was shorthand for “Wait, What?
7 Ask PR,” which was a PR message group that was visible to all Facebook employees.¹⁵⁶

8 161. Facebook’s communications team scrambled in response. One of *The Guardian*
9 reporters working on the story would later recall: “[h]ours after the story was published, Facebook’s
10 PRs got in touch seeking more information, and later that evening I heard from the mothership itself
11 when *a senior*, California-based employee emailed a statement” to *The Guardian*.¹⁵⁷ Eliot Schrage
12 was one of two senior, California-based employees who were responsible for Facebook’s
13 communications and *The New York Times* reported that Schrage was an “architect of Facebook’s
14 responses to a range of scandals” including “Cambridge Analytica.”¹⁵⁸

15 162. Schrage reported to Sandberg, who oversaw policy and communications.¹⁵⁹

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17 ¹⁵⁶ Sept. 2015-May 2016 Facebook email thread at 6. That month Facebook’s research (Protect and
18 Care) team published a paper with “Aleksandr Spectre [who] previously published under the name
19 Aleksandr Kogan.” *Id.* at 5; Maurice H. Yearwood, *et al.*, *On wealth and the diversity of*
friendships: High social class people around the world have fewer international friends, *Personality*
and Individual Differences 87, 224 (2015).

20 ¹⁵⁷ Harry Davies, *Facebook told me it would act swiftly on data misuse – in 2015*, *Guardian* (Mar.
26, 2018).

21 ¹⁵⁸ *The New York Times* reported that Schrage was “an architect of Facebook’s responses to a range
22 of scandals, including the rise of misinformation on the site and the misuse of user data by the
23 political consulting firm Cambridge Analytica.” These facts demonstrate Sandberg and Schrage
24 were involved in Facebook’s Cambridge Analytica investigation and its related public statements.
Sheera Frenkel, *Facebook’s Head of Communications and Policy Is Leaving Company*, *N.Y. Times*
(June 14, 2018).

25 ¹⁵⁹ Schrage was the “VP of public policy and global communications.” Kurt Wagner & Rani Molla,
26 *Mark Zuckerberg’s birthday photo shows the 20 Facebookers you should know not named Mark*
Zuckerberg, *Vox* (May 16, 2017). That title corresponds to the “comms policy” requests and
27 concerns that elevated Facebook’s internal Cambridge Analytica investigation to high priority status.
28 ¶159. Sandberg later testified that she learned about the Cambridge Analytica matter when *The*
Guardian reported it and it has been reported that Sandberg “overs[aw] Facebook’s policy and
communications arms,” plausibly showing that her direct report (Schrage) would have been involved
in managing Facebook’s response. Nicholas Confessore & Matthew Rosenberg, *Sheryl Sandberg*
THIRD AMENDED CONSOLIDATED CLASS ACTION COMPLAINT FOR VIOLATIONS OF THE
FEDERAL SECURITIES LAWS - 5:18-cv-01725-EJD

1 163. Schrage would have been involved in the Cambridge Analytica investigation. Mark
 2 Zuckerberg’s testimony confirmed that he was involved in at least some discussions of Facebook’s
 3 decision not to notify the users that their data had been compromised, which confirms that he knew
 4 about Facebook’s investigation into Cambridge Analytica.¹⁶⁰

5 6. Facebook’s Investigation Discovers the “Likes” Model – “Solid 6 Science”

7 164. Facebook employees and third parties got in touch with Facebook’s investigation
 8 team to share information about the parties involved in the data harvest, and to share information
 9 about the nature of the data harvest itself. For example, one of Kogan and Chancellor’s former
 10 colleagues at Cambridge University – Professor Michal Kosinski – offered to help Facebook with
 11 the investigation:¹⁶¹

12 Dec 11, 2015 3:50pm

13 AA [REDACTED] BE [REDACTED]

14 Hi – I’m a bit familiar with some of the context around the personality modeling stuff. As I understand it, it’s inspired from
 15 <http://www.pnas.org/content/110/15/5802.abstract> which is solid science. I’m good friends with the lead author from that paper (Michal Kosinsky) and
 16 he is not happy about how these guys are bringing his field of research into disrepute. He’s offered to chat with people on our end and to give more
 17 context if that helps. edit: to be clear, the datasets mentioned in the Guardian article are different/collected differently to those in the PNAS research!

18 Dec 11, 2015 3:22pm

19 Here, Facebook’s investigation discovered the significance of the “treasure trove of Facebook
 20 ‘likes’” that was one facet of *The Guardian*’s core allegations.¹⁶² The message (above) linked to
 21 Kosinski’s paper about “likes” modelling that warned that it “may have considerable negative

22 *Asked for Soros Research, Facebook Acknowledges*, N.Y. Times (Nov. 29, 2018). While both
 23 Sandberg and Schrage were “senior” communications/policy people, Facebook’s comment to *The*
 24 *Guardian* on the record in the evening of December 11, 2015 was from a “spokesman,” which
 25 plausibly shows Schrage was more likely the senior person who provided the comment in
 26 comparison to Sandberg. ¶157. Sandberg and Schrage’s duties also involved reviewing internal
 27 weekly news summaries that included “[f]lags” of media reporting policy actions against developers.
 28 *See, e.g.*, Six4Three Documents, Ex. 58 at FB-01373378-380 (reporting to Sandberg, Schrage, Rose,
 Hendrix and others “Platform Weekly News – 5/17/13,” with one of three “Flags” consisting of this
 information: “We took action against Social Roulette for violating Platform policies. This was
 picked up by TechCrunch, CNET and PC Mag.”).

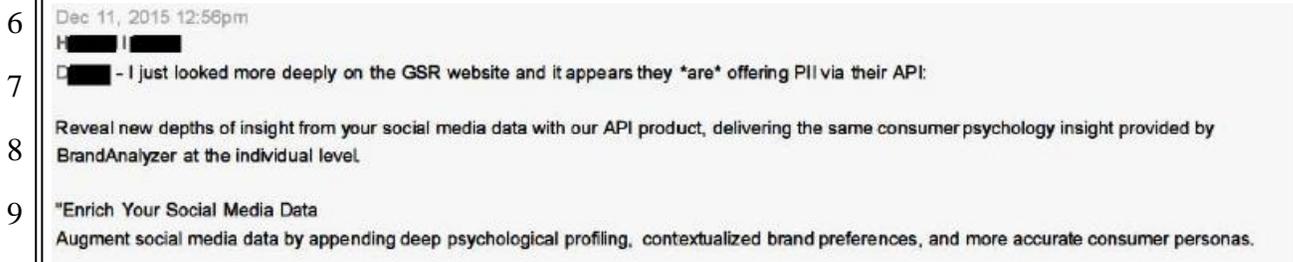
29 ¹⁶⁰ Committee Hearing Transcript at 63.

30 ¹⁶¹ Sept. 2015-May 2016 Facebook email thread at 5; Maurice H. Yearwood, *et al.*, *On wealth and*
 31 *the diversity of friendships: High social class people around the world have fewer international*
 32 *friends*, *Personality and Individual Differences* 87, 224 (2015).

33 ¹⁶² Dec. 2015 *Guardian* article.

1 implications, because it can easily be applied to large numbers of people without obtaining their
2 individual consent and without them noticing.”¹⁶³

3 165. Facebook’s investigation team also suspected GSR was selling data that would allow
4 the buyers to identify the data subjects in real life – called, personally identifiable information or
5 “PII”.¹⁶⁴



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11 166. Others at Facebook joined the investigation, sharing what they knew about GSR’s
12 collection.¹⁶⁵



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15 **7. Facebook Discovers that Facebook’s Own Decisions Allowing**
16 **GSR to Violate Facebook’s Stated Policies Are at the Root of**
17 **the Cambridge Analytica Data Harvest**

18 167. On December 11, 2015, Facebook internally copied a large block of text from “the
19 Guardian article on the supposed connection between SC and GSR”:¹⁶⁶

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24 ¹⁶³ Michal Kosinski, Academic Biography, Stanford Graduate School of Business; Kosinski Paper
25 at 5805 (Apr. 9, 2013).

26 ¹⁶⁴ Sept. 2015-May 2016 Facebook email thread at 5.

27 ¹⁶⁵ *Id.* at 5.

28 ¹⁶⁶ *Id.* at 6.

1 Dec 11, 2015 1:04pm

H [REDACTED] I [REDACTED]

2 The relevant part from the Guardian article on the supposed connection between SCL and GSR:

3 By summer 2014, Kogan's company had created an expansive and powerful dataset. His business partner boasted on Linked In that their private out
Global Science Research (GSR), "owns a massive data pool of 40+ million individuals across the United States – for each of whom we have generate
4 detailed characteristic and trait profiles".

5 Documents show SCL agreed to a contract with GSR, whereby it would pay its data collection costs in order to improve "match rates" against SC L's
existing datasets or to enhance GSR's algorithm's "national capacity to profile capacity of American citizens".

6 In an email, Kogan said he was unable to explain in detail where all the data came from, as he was restricted by various confidentiality agreements. H
said SCL is no longer a client.

7 He said that while GSR often used MTurk for data collection, it "never collected more than a couple thousand responses on MTurk for any one project, or
even across all projects for a single client – the vast majority of our MTurk data collection as a company is in the form of surveys only". He said GSR stores
8 Facebook data anonymously.

9 Kogan explained that separate from his university role, his private company undertook various commercial ventures relating to data analysis. He said that
when GSR collect Facebook data, the terms detail the use that information collected will be put to and make clear to participants that they are giving GSR
10 full permission to use the data and user contribution for any purpose.

11 He said Cambridge University had "no knowledge of the clients or projects GSR had worked on" and that GSR has never used any data collected as part o
his university activities.

12 168. As of 12:59 p.m. that day, Facebook's investigation team was tracking down internal
13 business and app identification numbers for Cambridge Analytica and GSR:¹⁶⁷

14 Dec 11, 2015 12:59pm

S [REDACTED] T [REDACTED]

15 Digging in more. A [REDACTED] pulled this list of UIDs (first three are associated with Cambridge Analytica, last one is associated with GSR):

16 <https://fburl.com/v187082435>. I tried to find an obvious connection among the group, but wasn't able to (no shared apps, pages, etc among ALL four). This
means that the Cambridge Analytica/GSR connection remains unconfirmed.

17 With that said, we found a Business ID (id: 402996616566868) for Cambridge Analytica with one admin: YY [REDACTED] ZZ [REDACTED]. The business has a Page
with 0 fans: <https://www.intern.facebook.com/cambridgeanalytica/>.

18 Lastly (and most interestingly), the business is associated with two other Pages: <https://www.intern.facebook.com/keepthepromise1/> (a ted cruz page
19 that links here: <http://www.keepthepromise1.com/about/>) AND <https://www.intern.facebook.com/PCIAA/> (property casualty insurers which links here:
<http://www.pciaa.net/about-us/about-pci/>). Both Pages have roughly 1k likes.

20 169. By 4:27 p.m. on December 11, 2015, Facebook official "D ___ E ___" reached out to
21 Kogan about *The Guardian* article, asking for an immediate response over email and to schedule a
22 call with him. Kogan "privately" got in touch with Facebook's investigation team "[w]ithin days"¹⁶⁸
23 of this request:¹⁶⁹

24 _____
25 ¹⁶⁷ *Id.* at 6.

26 ¹⁶⁸ SEC Complaint at ¶4. ("Within days of the press report, both [Kogan] and Cambridge Analytica
27 privately confirmed to Facebook that [Kogan] had transferred personality profiles based on
Facebook user data to Cambridge Analytica.")

28 ¹⁶⁹ Sept. 2015-May 2016 Facebook email thread at 5.

1 Dec 11, 2015 4:27pm

2 [REDACTED] E [REDACTED]

3 Update: We are reaching out to Dr. Kogan and will schedule a call in addition to asking for immediate responses over email. Please be sure not to contact Dr. Kogan or discuss anything pertaining to this investigation if he contacts you. If he does contact you, please put him in touch with me directly.

4 DevOps team - are S [REDACTED] and A [REDACTED] my poc for this investigation or should I include anyone else on any mtgs we schedule (want to make sure I'm looping in the right people)?

5 170. Within days of December 11, 2015, Facebook learned the name of the Quiz App from
6 Kogan and was, therefore, able to track down its App ID number and history. As illustrated by the
7 following example – pertaining to a different app – Facebook learned a lot about the Quiz App from
8 its App ID:¹⁷⁰

9 Dec 17, 2015 5:17pm

10 [REDACTED]

11 That would be great! As [REDACTED] mentioned I've been digging into Nation Builder following our call with Strategic Media 21 though am struggling to fully understand the app based on online investigation alone. Here's what I've found:

12 - NationBuilder (126739610711965), 132k MAP

13 - Passed review for following permissions (https://our.cstools.facebook.com/_/crow/apps/submission-su.../): user_events, publish_actions, rsvp_event, manage_pages

14 - Actively pulling these perms: <https://fburl.com/188631556>

15 - In short the app seems to offer monthly subscription services for politicians, nonprofits, unions, etc building profiles based (in part) on information pulled from the person's activity on the client's Facebook Page. It then seems to offer correspondence services for the client's 'voter database,' including email blasts and text messages. From the 'How to connect to FB' FAQ page (http://nationbuilder.com/how_to_facebook_twitter_facebook):

16 171. The history of GSR's Quiz App was far more troubling than that pertaining to the
17 "NationBuilder" app – in the above example – because the Quiz App's history revealed that
18 Facebook allowed the app to violate its platform policies *so that* it could download the data at issue
19 from Facebook's servers.

20 172. Whereas the "NationBuilder" app identified in the above example "[p]assed [app]
21 review," the Quiz App failed app review but was nonetheless allowed to harvest data that the app did
22 not need anyway. See §IV.D.4.-8. The same "review" history would have flagged the fact that
23 Facebook whitelisted the app. See §IV.E.1. And Facebook also was able to uncover the "perms"
24 that apps were pulling, meaning Facebook could see what kinds of data the Quiz App users were
25 giving "permissions" – whether legitimate or deceptively induced – to the Quiz App that the Quiz
26 App could then use to pull data from Facebook's servers about the users. Facebook could readily

27 _____
28 ¹⁷⁰ Sept. 2015-May 2016 Facebook email thread at 4.

1 access all of the details it wanted about the information that the Quiz App was pulling because the
 2 Quiz App was pulling data from Facebook’s own servers – servers that Facebook engineers used to
 3 “throttle” the Quiz App previously.¹⁷¹

4 173. These reviews uncovered the Quiz App’s data download history – the three data
 5 transfer “waves,” the whitelisting and the app review rejection/override as detailed above.

6 174. Importantly, Facebook’s investigation into *The Guardian*’s December 11, 2015 report
 7 discovered that Kogan made misleading statements to *The Guardian* – and, by extension, to the
 8 public – about the nature of the data at issue:¹⁷²

- 9 • As Facebook knew, contrary to Kogan’s assurances to the public that “GSR stores
 10 Facebook data anonymously,” GSR collected Facebook users’ names, locations,
 11 gender and their Facebook user identification numbers.¹⁷³

12 ¹⁷¹ Facebook’s internal documents provided a number of illustrations of how the company could
 13 pull detailed information on thousands of apps at a time. *See, e.g.*, Six4Three Documents, Ex. 74 at
 14 FB-00061650 (Facebook internal communication addressing “private API usage” – *i.e.*, whitelisting
 15 – pulling historical monthly active user stats for 6,000 apps); Six4Three Documents, Ex. 80 at FB-
 16 00061439 (Facebook internal communication discussing “thorough audit on the apps that have been
 17 whitelisted for capabilities equivalent to the public APIs we will be deprecating, *i.e.*, apps that have
 18 been whitelisted”); Six4Three Documents, Ex. 72 at FB-00061223 (Facebook internal
 19 communication regarding large-scale app audit, noting “I have identified 110 apps out of a list of
 20 1,100” to audit); Six4Three Documents, Ex. 77 at FB-01363528-531 (Facebook internal presentation
 21 noting that it would take “2 weeks” to audit “top 500” apps on Facebook, and showing a number of
 22 apps that cause “data leakage,” including a 12 apps whose monthly active uses are far lower than the
 23 number of data requests the app developers were making – for example, one app had 334 thousand
 monthly active users but had pulled friends data from Facebook over 131 million times in preceding
 30 days); Six4Three Documents, Ex. 78 at FB-01352120 (Facebook internal presentation
 summarizing data on 1.4 million apps, including number of monthly active users and number of calls
 app made to collect data from Facebook’s server via APIs over preceding 30 days) and *id.* at FB-
 01352144 (breaking down the number of apps requesting “friends” data on a daily basis – 13,350
 apps in total, with “0.9%” associated with Facebook Preferred Marketing Developers (“PMDs”)
 generating approximately 7 million impressions per day); Six4Three Documents, Ex. 146 (Facebook
 internal excel spreadsheet detailing and ranking apps, identifying app developers by name, and
 quantifying the total number of *minutes* each app had been used in the aggregate by Facebook
 users).

24 ¹⁷² Kurt Wagner, *Here are the New York Times and Observer stories that pushed Facebook to
 suspend Trump’s data analytics company*, N.Y. Times (Mar. 17, 2018).

25 ¹⁷³ Dec. 2015 *Guardian* article. Facebook gave the Facebook User ID datapoint to all developers.
 26 *See, e.g.*, Six4Three Documents, Ex. 43 at FB-01220350 (Facebook internal document stating that
 27 “anyone” – referring to any developer – can get “uid” without any review – the “uid” datapoint
 28 refers to the Facebook User ID). Facebook’s servers transferred Facebook User IDs tied to all of the
 data that Kogan and Chancellor harvested via the Quiz App. *See, e.g.*, FTC Cambridge Complaint at
 ¶¶23-25 (stating the Quiz App “collected the Facebook User ID” along with a number of other
 datapoints from those who installed the app (250,000-270,000 people) and from all of their

- 1 • As Facebook knew, contrary to Kogan’s assurances that GSR “never collected more
2 than *a couple thousand* responses on MTurk”¹⁷⁴ – the service GSR reportedly used
3 to collect data from Facebook users – “for any one project, or even across all projects
4 for a single client,” GSR collected personal information, from Facebook’s own
5 servers, about *50-65 million* users. For the *30 million* users that GSR tied to U.S.
6 voting records, GSR collected, on average, 570 “likes” per user – or approximately
7 17.1 billion “likes” in all.
- 8 • As Facebook knew, contrary to Kogan’s assurances that all of the affected users gave
9 GSR “full permission” to collect the subject data, GSR lied to the users that GSR
10 would only use the data for “research” and also lied to the users that GSR would not
11 collect any personally identifiable information – in fact, the user identification
12 numbers, name, gender, and location data are the opposite of “anonymous” data.
13 Facebook’s security chief later admitted that Kogan “enticed several hundred
14 thousand individuals to use Facebook to login to his personality quiz” but that Kogan
15 “*lied to those users*” to get them to login.

16 175. But Facebook elected to conceal these facts from Facebook users and investors.

17 **8. Cambridge Analytica Represents that It Received “Personality
18 Score Data” from GSR, Which Facebook Confirms Violated
19 Facebook’s Platform Policies**

20 176. On December 17, 2015, Alex Tayler (“Tayler”), Chief Data Officer for Cambridge
21 Analytica, wrote to Facebook executive Allison Hendrix (“Hendrix”) asking for confirmation that
22 Cambridge Analytica had not breached Facebook’s terms of service.¹⁷⁵

23 177. Facebook responded that Cambridge Analytica *had* violated Facebook’s policies and
24 terms. Indeed, on December 18, 2015, Facebook’s Hendrix replied and confirmed that Cambridge
25 Analytica’s had violated Facebook’s policies and terms. Hendrix also confirmed Cambridge

26 Facebook “friends” (50-65 million people)). Facebook’s internal communications show Facebook’s
27 investigation suspected GSR was selling personally identifiable information before the team secured
28 the Quiz App’s identification number. *See, e.g.*, Sept. 2015-May 2016 Facebook email thread at 6
(Facebook internal communication dated December 11, 2015 (between 12:00 p.m. and 12:56 p.m.)
stating, “I just looked more deeply on the GSR website and it appears they **are* offering PII*” –
personally identifiable information – “via their API”).

¹⁷⁴ *See infra*. Dec. 2015 *Guardian* article.

¹⁷⁵ *See* Mike Butcher, *Cambridge Analytica email chain with Facebook sheds new light on data misuse scandal*, TechCrunch (Jan. 17, 2020) (“Jan. 2020 *TechCrunch* article”). *TechCrunch* reported: “This entire exchange was then forwarded by executives from the N6A PR agency to Cambridge Analytica executives and was, in turn, obtained by Kaiser on 23 January 2016.”

1 Analytica’s prior statements that it had “received *personality score data* from Dr. Kogan” and that
 2 Cambridge Analytica had funded Kogan’s work:¹⁷⁶

3 Thank you again for taking the time to speak with me last week and providing
 4 additional information into *Dr. Kogan’s development of the GSR app which was*
 5 *funded by Cambridge Analytica (via SCL Elections)*. As discussed, we don’t allow
 6 any information obtained from Facebook to be purchased or sold, and we have strict
 7 friend data policies that prohibit using friend data for any purpose other than
 8 improving a person’s experience in your app. From our conversations, *it is clear that*
 9 *these policies* have been violated.

10 You have *told us that you received personality score data from Dr. Kogan*
 11 *that was derived from Facebook data, and that those scores were assigned to*
 12 *individuals included in lists that you maintained*. Because that data was improperly
 13 derived from data obtained from the Facebook Platform, and then transferred to
 14 Cambridge Analytica in violation of our terms, we need you to take any and all steps
 15 necessary to completely and thoroughly delete that information as well as any data
 16 derived from such data, and to provide us with confirmation of the same.

17 178. On January 18, 2016, Cambridge Analytica emailed Facebook that it would delete the
 18 personality score data.

19 179. By that date, approximately 30 people at Facebook knew about the company’s
 20 investigation into Cambridge Analytica, including senior management in “Facebook’s
 21 communications, legal, operations, policy, privacy, and research groups.”¹⁷⁷ They all also knew that
 22 Cambridge Analytica had violated the Facebook’s platform policies. Facebook chose to conceal all
 23 of these facts as it prepared for the presidential election, which Sandberg compared to the “Super
 24 Bowl” in terms of advertising dollars and user engagement.

25
 26
 27
 28 **9. Sandberg Compares the 2016 Presidential Election to the
 World Cup, Super Bowl and Olympics in Terms of Ad Spend
 as the Primaries Continue to Unfold**

178. With the Cambridge Analytica data harvest fresh in mind, Facebook’s senior
 management continued to discuss use of Facebook data for political campaigns with the investment
 community. On January 27, 2016, for example, Facebook held a public conference call with
 securities analysts and investors. An analyst asked Sandberg, “Sheryl, could you talk about political

¹⁷⁶ *Id.*

¹⁷⁷ SEC Complaint at ¶30

1 advertising? And, how you think about the attractiveness of – and any anecdotes you have on
2 Facebook as a platform for political campaigns?”¹⁷⁸ Sandberg responded:

3 In terms of the elections, it’s important to note that we’re large and
4 diversified, so no one vertical drives our business. ***Yes, the 2016 election is a big
5 deal in terms of ad spend. But, so is the World Cup. So, is Super Bowl every year.
6 So are events like the Olympics.***

7 ***We are excited about the kind of targeting we’re able to offer for our ads
8 platform.*** We believe we have precision that doesn’t exist on any other platforms.
9 So, for example, using Facebook and Instagram ads, you can target by congressional
10 district, you can target by interest, you can target by demographics, or any
11 combination of those. And, we’re seeing politicians at all levels really take
12 advantage of that targeting.

13 ***It’s also probably worth saying that we’re pretty excited about what’s
14 happening with the elections organically on Facebook.*** Facebook is really the new
15 town hall and connecting the people who are running for office, both at the national
16 and the local level with people directly has been really important. Every member of
17 congress in the United States is now on Facebook. We’re seeing some of them post
18 every vote and explain why they are doing votes. We’re seeing a bunch of the
19 candidates for president get on Facebook themselves and interact, taking questions
20 from their potential voters directly. And, we think that kind of direct engagement
21 where people can hold their elected officials accountable, and elected officials can
22 speak directly to constituents is a really important part of our mission, and ***we’re
23 excited about the 2016 election and what’s happening there.***

24 181. On February 9, 2016, Sandberg attended a Goldman Sachs Technology Conference
25 where she discussed “election issues,” and stated:¹⁷⁹

26 So we think it’s incredibly important. From the ad side, ***this is a big
27 advertising event***, but we have a very diverse space, and no one event drives our ad
28 revenue. There’s also Super Bowl and World Cup. But we do have a pretty
compelling ad offering in the market. We’re the only place where you can target not
just by gender, life’s interests, but you can target by congressional district. And so
we see people increasingly using our ad platform to do a kind of targeting that only
we can do.

29 182. On March 2, 2016, Sandberg and Rose attended the Morgan Stanley Technology,
30 Media & Telecom Conference. One participant discussed the U.S. presidential elections and asked
31 how campaigns were using Facebook. Sandberg responded by explaining, among other things:¹⁸⁰

32 Well, I think it’s very exciting, the election, certainly from Facebook’s
33 perspective because there’s lots of interesting content being generated and shared on

34 ¹⁷⁸ Q4 2015 Facebook Inc. Earnings Call Tr. at 16 (Jan. 27, 2016).

35 ¹⁷⁹ Facebook Inc. at Goldman Sachs Tech. Conference Tr. at 5-6 (Feb. 09, 2016).

36 ¹⁸⁰ Facebook Inc. at Morgan Stanley Tech., Media & Telecom Conference Tr. at 8 (Mar. 02, 2016).

1 Facebook. It's an incredible platform for people to connect and they are connecting
2 with politicians. [There are] conversations going on amongst friends about the
election and so there's tons of interactions.

3 We have seen I think it's 75 million, 76 million people interact on Facebook
4 around the election. So there's an incredible amount of engagement going on. . . .

5 On the ad side, I think it's – we just have a very diversified business from an
ads perspective. So no one vertical, whether that be politics, is going to drive the
6 business. *But I think on an engagement side we are really excited about what we
are seeing.* And *Dan, (multiple speakers) you work with a lot of the public figures.*

7 Rose followed up by reinforcing the significance of the 2016 election to Facebook:¹⁸¹

8 *Yes, it's interesting, there's no question that this election cycle, the
9 candidates have really taken to Facebook as a way to reach their constituents. It's
10 also the case that outside of the US this has been happening for a while. And even
in the last cycle Obama was famously very social media savvy and used social media
better than his opponents.*

11 **F. Facebook, the Trump Campaign, and Cambridge Analytica Get to
12 Work on the 2016 Presidential Election**

13 **1. Cambridge Analytica Continues to Model and Work with the
14 Misappropriated Facebook Data, Admitting in Internal
Documents that the 30 Million Users' Data Were the Key
Ingredient of Its Secret Sauce – Psychographic Scoring**

15 183. Because Facebook did not check whether Cambridge Analytica deleted the data it had
16 improperly received, Cambridge Analytica simply kept the data and was able to continue working
17 with it. Indeed, Facebook knew or should have known that Cambridge Analytica – a known “bad
18 actor” – was not likely to simply delete highly valuable data that took nearly an entire year for
19 Cambridge Analytica to harvest.

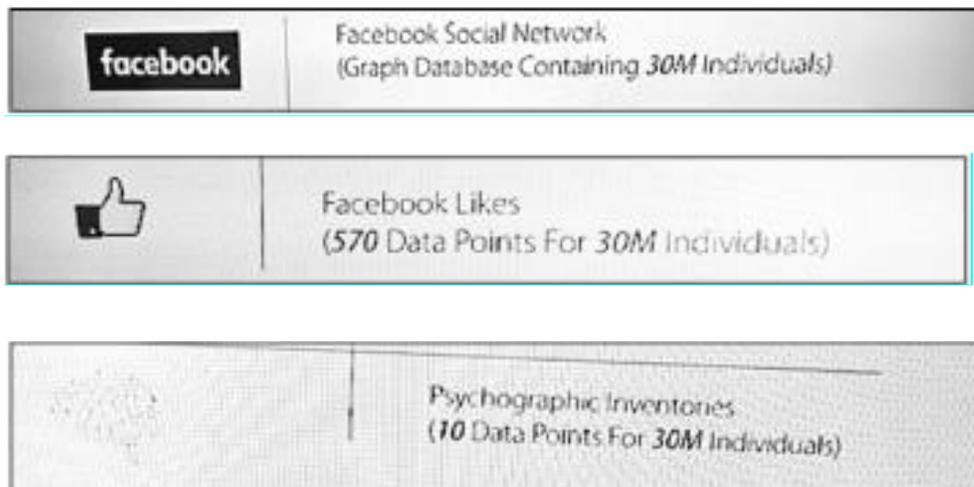
20 184. Thus, Cambridge Analytica simply carried on using the stolen data. According to
21 accounts from Kaiser, a whistleblower and Cambridge Analytica's former Director of Business
22 Development, Kaiser provided testimony to U.K. officials investigating the Cambridge Analytica
23 scandal: “In March 2016 . . . I had an email from one of our senior data scientists responding to a
24 question that said that we were actually using Facebook-like data in our modelling.”¹⁸² Kaiser's
25 written testimony states that she “found another email dating from March 2016 in which another of

26 _____
27 ¹⁸¹ *Id.*

28 ¹⁸² Kaiser U.K. Test. at Q1597.

1 our senior data scientists confirmed in writing that we were using some *Facebook likes for*
 2 *modeling*, two months after we confirmed that these data were deleted.”¹⁸³

3 185. On or about April 20, 2016, Cambridge Analytica – likely Tayler or Nix – made a
 4 presentation to a client titled: “Data-Driven Political Campaigning: Winning in 2016.” Kaiser
 5 shared images of this document in a documentary about the Cambridge Analytica matter, titled *The*
 6 *Great Hack*. In one slide, Cambridge Analytica touts “Our Data Makes Us Different,” which
 7 includes several data sources, including these three sources, which Cambridge Analytica presented
 8 on the “Our Data Makes Us Different” page of its presentation:



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17 Of all the data Cambridge Analytica possessed, only one data source contained exactly 30 million
 18 users’ “likes” – namely, Facebook. The fact that Facebook transferred, on average, 570 “likes” per
 19 user shows Facebook transferred approximately *17.1 billion* “likes” to the Quiz App, for sale to
 20 Cambridge Analytica. Those 30 million individuals’ Facebook data precisely match the number of
 21 “Psychographic Inventories” that Cambridge Analytica was still using. In other words, Cambridge
 22 Analytica kept using the misappropriated data.

23 186. These facts – showing an exact 30-million-person match between the Facebook
 24 “likes” and “social graph” (*i.e.*, a data graph of each users’ Facebook friends network) with the
 25 psychographic inventories – show that Cambridge Analytica lied to Facebook that it had merely
 26 received “psychographic scoring” from GSR. It also obviously received Facebook “likes” data.

27
28 ¹⁸³ Kaiser Stmt. at 6.

1 This also shows that Cambridge Analytica was still using the Facebook data, which took it a year to
2 amass in three separate waves and which underpinned its commercial value.

3 187. Over the March-May 2016 period, Cambridge Analytica courted the Trump campaign
4 as a client as the Cruz primary campaign wound down. Around that same time, Zuckerberg and
5 Sandberg invited approximately 12 prominent conservative leaders to meet with them at Facebook's
6 headquarters in Menlo Park.

7 **2. Zuckerberg and Sandberg Instruct Facebook's Senior**
8 **Policy/Political Ad Sales Executives to Set Up a Meeting with**
9 **Prominent Conservatives**

10 188. Zuckerberg and Sandberg followed the 2016 presidential campaign closely and, in
11 May 2016, instructed their political team in Washington DC to strengthen Facebook's relationship
12 with conservative causes. Facebook's Vice President of Public Policy, Joel Kaplan ("Kaplan"),
13 "tapped a small team of Republicans, including [Katie] Harbath, to organize a visit for prominent
14 conservatives" (about 12 total) with Zuckerberg and Sandberg and other senior Facebook executives
15 at the company's headquarters.¹⁸⁴ Kaplan was part of "an elite group" of senior executives at
16 Facebook, and had strong ties to Sandberg and reported to Schrage.¹⁸⁵ Harbath reported to Kaplan.

17 189. Kaplan and Harbath set up the meetings among Zuckerberg, Sandberg and prominent
18 conservatives for May 18, 2016. The point of the meetings was to assure conservative voices that
19 Facebook took their concerns about political bias seriously.

20 190. At a conference that Sandberg later attended with Kaplan in Washington DC,
21 Sandberg explained that the May 18, 2016 meetings at the company's headquarters were broader
22 than just one issue. Among other things, the meeting attendees talked about how they were using
23

24 ¹⁸⁴ Craig Timberg, *How conservatives learned to wield power inside Facebook*, Wash. Post (Feb.
25 20, 2020).

26 ¹⁸⁵ Taylor Hatmaker, *Facebook has other ties to Definers, the GOP-led opposition research group*,
27 TechCrunch (Nov. 16, 2018) ("Having attended Harvard together, Kaplan and Sandberg are close.
28 At Facebook, Kaplan reported to Communications and Public Policy VP Elliot Schrage . . . Schrage
reported to Sandberg, though Kaplan was often looped into high-level decision making as well as
part of 'an elite group' of senior executives at the company.").

1 Facebook “to get their voice out.”¹⁸⁶ Sandberg said “this really matters to us – it is a political time –
2 and we’re proud of the role we play in elections.”¹⁸⁷ A senior Trump campaign official, Barry
3 Bennett (“Bennett”), attended the May 18, 2016 meetings, where Facebook senior executives offered
4 the Trump campaign special training.¹⁸⁸ Bennett had previously served as the manager of Ben
5 Carson’s campaign while that campaign employed Cambridge Analytica. Bennett remarked a day
6 after the May 18, 2016 meetings: “Great meeting & first step at Facebook today. Facebook is
7 committed to being an open platform for all political views. More work to be done!”¹⁸⁹

8 191. Kaplan and Harbath attended the May 18, 2016 meetings. Harbath was “the director
9 over dedicated Democratic and Republican teams” that supported elections at the time by selling
10 them ads and providing other services.¹⁹⁰ Facebook had “dedicated” partisan teams at the time.
11 Harbath explains why: “[political clients] want somebody who understands how they do politics on
12 their side, understands the background, and in some ways, is one of them.”¹⁹¹ Thus, Facebook had
13 (colloquially) a “Democrat team” and a “Republican team.” The Republican team – which included
14 Harbath and at least two other, more junior people supporting Harbath (“FB1” and James Barnes) –
15 regularly met with Cambridge Analytica’s representatives to discuss business opportunities on behalf
16 of Facebook.¹⁹²

17
18 ¹⁸⁶ *Facebook and Technological Innovation*, AEI Institute, C-SPAN (June 22, 2016) at 5:30-5:40
(Joel Kaplan in attendance).

19 ¹⁸⁷ *Id.*

20 ¹⁸⁸ Alex Johnson & Matthew DeLuca, *Facebook’s Mark Zuckerberg Meets Conservatives Amid*
21 *‘Trending’ Furor*, NBC News (Mar. 18, 2016).

22 ¹⁸⁹ *Id.*

23 ¹⁹⁰ Daniel Kreiss & Shannon C. McGregor, *Technology Firms Shape Political Communication: The*
24 *Work of Microsoft, Facebook, Twitter, and Google With Campaigns During the 2016 U.S.*
Presidential Cycle, *Journal of Political Communication* (Oct. 26, 2017) at 162.

25 ¹⁹¹ *Id.*

26 ¹⁹² Kaiser first met Harbath in 2015, and met with Facebook’s Republican team from time to time
27 thereafter. Facebook’s team would meet Cambridge Analytica’s team offsite at that company’s
28 Washington DC (or, previously, Alexandria, VA offices) or via telephone or at conferences.
Facebook’s Republican team would also interact regularly with one of Cambridge Analytica’s top
data scientists, Molly Schweickert. James Barnes (“Barnes”) was one of three or more Facebook
employees whom Facebook embedded inside the Trump campaign’s digital operations in San
THIRD AMENDED CONSOLIDATED CLASS ACTION COMPLAINT FOR VIOLATIONS OF THE
FEDERAL SECURITIES LAWS - 5:18-cv-01725-EJD

1 192. Shortly after the May 18, 2016 meetings between Facebook’s senior management and
 2 prominent conservatives – wherein Zuckerberg, Sandberg and Kaplan offered special training to the
 3 meeting attendees – Facebook’s Republican team met with Cambridge Analytica about the Trump
 4 campaign.¹⁹³ Facebook would ultimately extend a number of benefits to the Cambridge Analytica
 5 data team – led by Cambridge Analytica data scientists Matt Oczkowski and Molly Schweickert – as
 6 they got to work on the Trump campaign.

7 3. **Facebook Learns that Cambridge Analytica Lied About** 8 **Deleting Facebook Data**

9 193. On June 11, 2016, Facebook learned new facts about the Facebook-labelled
 10 “certification of deletion” that Cambridge Analytica (Nix/Taylor) had completed in January 2016.
 11 On June 11, 2016, GSR and Kogan provided new certifications to Facebook showing that
 12 Cambridge Analytica’s January 2016 certification was necessarily false.¹⁹⁴

13 194. These new June 11, 2016 certifications disclosed to Facebook the App ID of the Quiz
 14 App and certified that the Quiz App took information sufficient to personally identify those who
 15 installed the app,¹⁹⁵ including these data: “[n]ame, gender, location, birthdate, page likes, friends list,
 16 each friend’s name, each friend’s gender, each friend’s location, each friend’s birthdate, each

17 Antonio, Texas. Barnes has since provided a number of public interviews. It appears as though
 18 “FBI” has not provided any public interviews about Cambridge Analytica, so “FBI” is anonymized
 herein.

19 ¹⁹³ Kaiser shared these facts in remarking about questions that a senator had posed to Mark
 20 Zuckerberg; the questions focused on whether Facebook employees were involved in the Trump
 campaign *with* Cambridge Analytica. Kaiser stated: “Yes we were, *the [Facebook] republican team*
in D.C. was, I met them.” *The Great Hack* (The Othrs 2019) at 1:01:56.

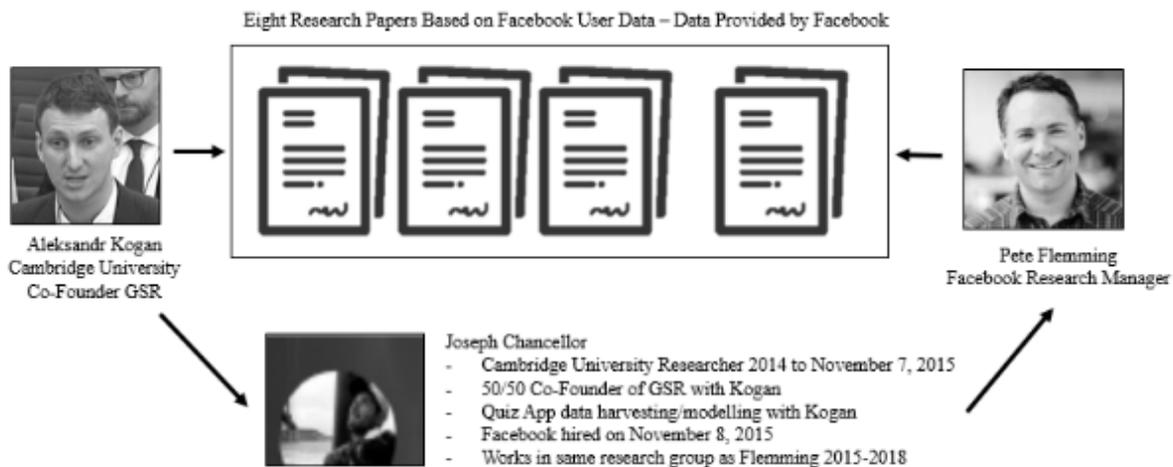
21 ¹⁹⁴ See Facebook, Responses to U.S. Senate Committee on the Judiciary, Questions for the Record
 22 addressed Chairman Grassley (June 8, 2018) at 126 (“On June 11, 2016, Kogan executed and
 23 provided to Facebook signed certifications of deletion on behalf of himself and GSR. The
 24 certifications also purported to identify all of the individuals and entities that had received data from
 GSR (in addition to Kogan and his lab), listing the following: SCL” and others.); *see also* Stimson
 Letter at 29, 33 of 40 (June 11, 2016 Certs. and June 24, 2016 Settlement Agr. attachments)
 (showing “6/11/2016” execution dates).

25 ¹⁹⁵ Kogan and Facebook apparently overlooked the fact that Kogan also collected Facebook User
 26 IDs, but this omission would have been an insignificant oversight at the time because Facebook
 27 could just look up all the data that the Quiz App took with the App ID – Facebook knew he took
 28 those identification numbers. This omission is curious on the part of Facebook, however, because
 the Facebook user identification numbers were the data points that a third party, like a government
 investigator, would need to trace the data set back to Facebook itself.

1 friend’s page likes.”¹⁹⁶ But GSR and Kogan transferred more data in addition to these so-called
 2 “raw” data.

3 195. On June 11, 2016, GSR and Kogan also confirmed that they had modelled Facebook
 4 users’ data to create psychographic scores (*i.e.*, “predicted survey responses”) from the “likes” of the
 5 app installer and their Facebook friends. GSR and Kogan certified that they had also modelled
 6 correlations among demographic groups and “likes” for the purpose of giving the modelled results
 7 (and the model) to SCL Elections Limited, a U.K. company (Nix was SCL’s CEO).

8 196. On June 11, 2016, GSR and Kogan further certified that SCL had paid GSR £750,000
 9 for the Facebook app data. GSR and Kogan also confirmed at the time that Kogan wrote eight
 10 research papers in collaboration *with* Facebook’s research group based on user data provided *by*
 11 Facebook. Kogan told reporters that he had worked on at least ten papers with Pete Fleming from
 12 Facebook’s research group. Fleming and Chancellor worked for Facebook in June 2016:



23 These disclosures about Chancellor are important because they gave Facebook’s investigation team
 24 access to detailed facts about the purpose and nature of the Facebook “likes” data and modeling that
 25
 26

27
 28 ¹⁹⁶ Stimson Letter at 24 of 40.

1 they sold to Cambridge Analytica via SCL and Nix. Facebook’s investigation team learned that
2 Cambridge Analytica was still using that model, in violation of Facebook’s stated policies.¹⁹⁷

3 197. Kogan and GSR’s June 11, 2016 certification also confirmed that Facebook had
4 reviewed and approved a paper about “donations” that rested on the data that he and Chancellor had
5 harvested via the Quiz App. GSR and Kogan told Facebook that it “was *prepared* with a graduate
6 student” in Kogan’s lab “*and members* (current and former) of the Protect and Care team *at*
7 *Facebook*.” “The paper has previously been reviewed and approved by Facebook’s internal review
8 team,” as GSR disclosed. Kogan’s graduate student, Rui Sun, had previously presented this paper at
9 Cambridge University while on a panel with Kogan and Chancellor.¹⁹⁸ The paper was part of Sun’s
10 dissertation; in the dissertation, she referenced a number of current and former “labmates” that
11 included “Joseph Chancellor,” though she did not credit Chancellor as having substantive input on
12 the research.¹⁹⁹ In sum, Facebook’s own employees had input into a paper that Kogan’s grad student
13 write a paper that rested, in part, on the data that GSR had misappropriated and sold to Cambridge
14 Analytica.

15 198. On June 11, 2016, Kogan also certified that he transferred to Nix – CEO of
16 Cambridge Analytica and SCL Elections – the “likes” for 30,000,000 Facebook users and facts
17 sufficient to identify those users personally – *i.e.*, unique Facebook profiles:
18
19
20

21
22 ¹⁹⁷ See, e.g., ¶177 (Facebook investigation teammate admitting that Cambridge Analytica’s receipt
23 of any *derivative* data, such as the modeled “personality score data from Dr. Kogan that *was derived*
24 *from* Facebook data” violated Facebook’s publicly stated platform policies); see also ¶118 (Kogan
25 and Chancellor’s company (GSR) contract with Cambridge Analytica affiliate (SCL), proving the
Facebook data were core inputs to the model and its outputs); see also §IV.I.1.c.-d. (adducing
additional evidence of Cambridge Analytica’s continued misuse of the misappropriated “likes”
model).

26 ¹⁹⁸ Stimson Letter at 31 of 40 (June 11, 2016 Certs. and June 24, 2016 Settlement Agr. attachments).

27 ¹⁹⁹ Rui Sun, Dissertation: *Be Rich or Be Good: The Interaction Between Prosociality and*
28 *Socioeconomic Status in Predicting Personal Benefits*, University of Cambridge, Department of
Psychology, King’s College (Feb. 2020).

Name	Contact Information	Number of unique Facebook Profiles Involved, and Specific Data Points Shared
SCL	Alexander Ashburner Nix [REDACTED]	Approximately 30 million people. Shared forecasted survey responses (derived from page likes) and some limited profile data (such as name, location, birthday, and whether an individual had liked any of a limited list of specific Facebook pages)

199. Faced with the above evidence, Facebook’s investigation team unequivocally knew or willfully blinded themselves to the fact that Cambridge Analytica had made material factual misrepresentations in support of its so-called “certification” of deletion of January 2016.

a. Facebook Knew by June 11, 2016 that Cambridge Analytica Had Misrepresented Its Use of the Data at Issue

200. Facebook learned on June 11, 2016 that Cambridge Analytica had misled Facebook’s investigation team about the kind of Facebook data that it purchased from GSR. On December 15, 2015, Cambridge Analytica represented to Facebook that it had “subcontracted the research phase of the psychographic data project to GSR, who provided us with an append to our voter file containing the *psychographic scoring*.” A few days later, Facebook spoke with Cambridge Analytica about the sources of the psychographics, and memorialized, again, that the psychographics rested on Kogan’s stolen data: “You have told us that you received *personality score data* from Dr. Kogan that was derived from Facebook data,” in violation of Facebook’s policies.²⁰⁰ These factual certifications to Facebook’s investigation officials were both misleading, as Facebook discovered on June 11, 2016. Per Kogan and GSR’s certifications, GSR provided to Cambridge Analytica (via Nix/SCL) not only

²⁰⁰ See Jan. 2020 *TechCrunch* article.

1 the psychographic data (“personality scores”) but also everything else that Facebook sent to GSR,
2 including *30 million users’ “likes,”* as well as names and other personally identifiable information –
3 far more than just psychographic scores. In other words, Cambridge Analytica’s claim that it merely
4 purchased “personality scores” was fraudulent, as Facebook learned on June 11, 2016.

5 **b. Facebook Knew that Cambridge Analytica Had**
6 **Misrepresented Its Funding Role**

7 201. Facebook’s June 11, 2016 discovery of Cambridge Analytica’s data destruction
8 “certification” fraud extended beyond the data itself. Cambridge Analytica’s representations in
9 support of its January 2016 “certification” of deletion included these additional representations:
10 “Cambridge Analytica *did not fund* the development of Dr. Kogan’s app” and “*did not pay GSR* for
11 their time or technology, but rather paid the third-party (*e.g.*, survey vendor) costs for the surveys
12 they ran.”²⁰¹ This was false and Facebook knew it. In fact, GSR’s formal certification of June 11,
13 2016 provided *to Facebook* showed that Cambridge Analytica (via Nix/SCL) had paid the costs of
14 developing the Quiz App and running it – “£750,000” directly to GSR.²⁰² Facebook had previously
15 discovered that GSR had – in the words of Facebook’s top security official – “enticed several
16 hundred thousand individuals to use Facebook to login to his personality quiz” but that GSR “lied to
17 those users” to get them to login.²⁰³ Cambridge Analytica (via Nix/SCL) funded the data extraction
18 and user “lie[s],” as Facebook discovered on June 11, 2016. That discovery further demonstrated to
19 Facebook that Cambridge Analytica’s January 2016 “certification” of destruction was a fraud.

20 **c. Facebook Knew that Cambridge Analytica Had**
21 **Misrepresented the Data’s Value**

22 202. On June 11, 2016, Facebook’s Cambridge Analytica investigation team discovered
23 other fraudulent aspects of Cambridge Analytica’s December 2015/January 2016 “certification” of
24 data destruction. Cambridge Analytica stated at the time that “the model we received from Dr.
Kogan wasn’t very accurate,” implying that it would never use “the model” that was supposedly the

25 ²⁰¹ Jan. 2020 *TechCrunch* article.

26 ²⁰² Stimson Letter at 26 of 40 (June 11, 2016 Certs. and June 24, 2016 Settlement Agr. attachments).

27 ²⁰³ Kurt Wagner, *Here are the New York Times and Observer stories that pushed Facebook to*
28 *suspend Trump’s data analytics company*, N.Y. Times (Mar. 17, 2018).

1 only thing it ever received from Kogan.²⁰⁴ That, too, was false. Facebook’s investigation team
 2 knew that GSR (Kogan and Chancellor) had pulled the 30 million users’ 17.1 billion “likes” in three
 3 waves: May 2014 the (the “rejection overruled” wave); June-July 2014 (the “throttled” wave); May
 4 2015 (the “whitelisting” wave). The fact that Cambridge Analytica propagated three harvesting
 5 waves demonstrated that everything GSR provided to Cambridge Analytica (via Nix/SCL) was
 6 “accurate” enough for commercial purposes, which is why GSR was paid £750,000 to harvest the
 7 three waves of data, build the model, model the data, and sell it all to Cambridge Analytica (via
 8 Nix/SCL). The £750,000 payment and three collection waves belie Cambridge Analytica’s contrary
 9 assertions in the “certification” provided on January 18, 2016. And Facebook’s own employee,
 10 Chancellor, no doubt informed Facebook’s investigation team that he and Kogan had accurately
 11 replicated the Facebook “likes” model that was one of the key goals of the data harvest. §§IV.D.6.-
 12 7.; §IV.E.3.

13 **4. Facebook Senior Management Learns that Cambridge**
 14 **Analytica’s January 18, 2016 “Certification” of Deletion Was**
 15 **False**

16 203. Additional facts demonstrate that Zuckerberg, Sandberg and the 28 other executives
 17 who were apprised of Facebook’s Cambridge Analytica investigation knew about the June 11, 2016
 18 revelations showing Cambridge Analytica’s January 2016 certification of deletion was fraudulent –
 19 and that, therefore, Facebook’s investigation team could not believe it was true.

20 204. Facebook learned that the January 18, 2016 “certification” from Cambridge Analytica
 21 was not accurate no later than *June 11, 2016* – the day that Facebook received the Kogan/GSR
 22 certifications. Those certifications and others prompted discussions by Facebook senior
 23 management, as reflected in Senate testimony:²⁰⁵

24 Harris: . . . So my question is, did anyone at Facebook have a conversation at
 25 the time that you became aware of this breach, and have a conversation where in the
 26 decision was made not to contact the users?

27 Zuckerberg: Senator, I don’t know if there were any conversations at
 28 Facebook overall because I wasn’t in *a lot* of them. But

29 ²⁰⁴ Jan. 2020 *TechCrunch* article.

30 ²⁰⁵ Committee Hearing Transcript at 63.

1 Zuckerberg's testimony shows that there were discussions at Facebook about the Cambridge
2 Analytica breach and whether to notify the affected user and, indeed that he was involved in at least
3 "some" of those discussions. Senator Harris asked several follow-up questions:²⁰⁶

4 Harris: And I've heard your testimony in that regard, but I'm talking about
5 notification of the users. And this relates to the issue of transparency and the
6 relationship (ph) of trust, informing the user about what you know in terms of how
7 their personal information has been misused.

8 And I'm also concerned that when you personally became aware of this, did
9 you or senior leadership do an inquiry to find out who at Facebook had this
10 information, and did they not have a discussion about whether or not the users should
11 be informed ***back in December 2015?***

12 Zuckerberg: Senator, in retrospect, I think we clearly viewed it as a mistake
13 that we didn't inform people and we did that ***based on false information that we***
14 ***thought that the case was closed*** and that the data had been deleted.

15 Harris: So there was a decision made ***on that basis*** not to inform the users. Is
16 that correct?

17 Zuckerberg: That's my understanding. Yes.

18 Zuckerberg elaborated:²⁰⁷

19 Zuckerberg: When we learned ***in 2015*** that Cambridge Analytica had bought
20 data from an app developer on Facebook that people had shared it with, we did take
21 action.

22 We took down the app, and ***we demanded*** that both the app developer ***and***
23 ***Cambridge Analytica*** delete and stop using any data that they had. ***They told us that***
24 ***they did this***. In retrospect, it was clearly a mistake to believe them. . . .

25 Nelson: Yes.

26 Zuckerberg: . . . and we should have followed up and done a full audit then.
27 And that is not a mistake that we will make.

28 Nelson: Yes, you did that, and you apologized for it. But you didn't notify
them. And do you think that you have an ethical obligation to notify 87 million
Facebook users?

Zuckerberg: Senator, ***when we heard back from Cambridge Analytica*** that
they had told us that they weren't using the data and had deleted it, we considered it a
closed case. In retrospect, that was clearly a mistake.

²⁰⁶ *Id.*

²⁰⁷ *Id.* at 10.

1 We shouldn't have taken their word for it, and we've updated our policies and
2 how we're going to operate the company to make sure that we don't make that
mistake again.

3 205. Facebook and Zuckerberg later responded to follow-up questions from the Senate in
4 writing after Zuckerberg's live testimony. They provided the date of Cambridge Analytica's data
5 destruction certification, which they now described as a written assurance:²⁰⁸

6 Why did Facebook wait until eight months after *The Guardian's* report about
7 Cambridge Analytica to send a letter asking for certification that the data was
deleted?

8 Facebook did not wait until eight months after *The Guardian's* report about
9 Cambridge Analytica to seek assurance that the data was deleted. Facebook
10 contacted Cambridge Analytica the day the article was released. About one month
later, on **January 18, 2016, Cambridge Analytica assured Facebook in writing** that
11 it had deleted **the data** received from Kogan/GSR and that their server contained no
backups of the data.

12 Facebook then wrote to the U.S. Senate about the importance of the January 18, 2016 certification
13 from Cambridge Analytica; here, a confirmation or certification:

14 Facebook knew about Cambridge Analytica in 2015, when Facebook banned
Kogan's app from our platform and investigated what happened and what further
15 action Facebook should take to enforce our Platform Policies. Facebook **considered**
the matter closed after obtaining **written** certifications and confirmations from
16 Kogan [June 11, 2016], GSR [June 11, 2016], Cambridge Analytica [January 18,
2016], and SCL [April 3, 2017 (2017, not 2016 or 2015)] declaring that all such data
they had obtained was accounted for and destroyed.

17 206. These answers show the case was first "closed" as to Cambridge Analytica on
18 January 18, 2016 (the date of the only written confirmation (or assurance or certification) that
19 Facebook ever received from "Cambridge Analytica); yet, the case was not closed as to GSR/Kogan
20 until June 11, 2016. The GSR/Kogan June 11, 2016 certifications re-opened the case as to
21 Cambridge Analytica, because those "certifications" demonstrated to Facebook that Cambridge
22 Analytica's January 18, 2016 written confirmation rested on false statements that GSR only gave
23 Cambridge Analytica "personality scores," which was a lie that Facebook uncovered on June 11,
24 2016.

25 207. Yet Facebook wrote to the Senate:²⁰⁹

26
27 ²⁰⁸ Facebook, Responses to U.S. Senate Committee on the Judiciary, Questions for the Record
28 addressed Chairman Grassley (June 8, 2018) at 6.

1 We did *not have any reason* to affirmatively question *the veracity* of any of
 2 these certifications *until* March 2018, when we learned that *questions had been*
 3 *raised* concerning the accuracy of the certifications. Moreover, while Facebook’s
 4 policies in place at the time allowed us to audit apps to ensure that they were safe and
 5 did not violate its terms, we had already terminated Kogan’s app’s access to
 6 Facebook (and there was no intention of considering its reinstatement). Accordingly,
 7 there were no ongoing concerns about the level of data that app could access or
 8 might access in the future.

9 208. That answer was false. The June 11, 2016 GSR/Kogan certifications demonstrated, to
 10 Facebook, that Cambridge Analytica made misleading statements in its January 18, 2016
 11 certification – and, as a result, Facebook could not and did not believe that certification was true as
 12 of June 11, 2016.

13 **5. One Day After “Brexit,” Facebook Forces GSR and Kogan Not**
 14 **to Disclose the Facts that Revealed Cambridge Analytica’s**
 15 **Certification to Be a Fraud – and Threatens Him with**
 16 **Liquidated Damages Plus “Reasonable” Fees and Costs If He**
 17 **Does Disclose the Truth**

18 209. On June 22, 2016, Sandberg and Kaplan were in Washington DC discussing global
 19 politics that included issues relating to the EU.²¹⁰ Facebook’s investigation into Cambridge
 20 Analytica had uncovered the fact that Cambridge Analytica was working for an advocacy group that
 21 favored the U.K. leaving the EU in the “Brexit” referendum.²¹¹

22 ²⁰⁹ *Id.* at 9.

23 ²¹⁰ *Facebook and Technological Innovation*, AEI Institute, C-SPAN (June 22, 2016) at 17:26-17:44
 24 (Sandberg noted that the team was “talking to policymakers” and members of Congress about policy
 25 issues that were important to Facebook and noted that “one of the big open issues right now is the
 26 transfer of data from the EU to the US.”).

27 ²¹¹ *See, e.g.*, Robert Booth, *EU referendum: Grassroots Out brings ‘a hint of the Trump’ to middle*
 28 *England*, *Guardian* (Feb. 15, 2016) ([Brexit advocacy group] GO! is bidding to be designated by the
 Electoral Commission as the official leave campaign, which would allow it to raise up to £7m in
 total. US political consultants, originally hired by Leave.EU, have been placed at GO!’s disposal,
 including some from *Cambridge Analytica*, who work for Ted Cruz, the Republican presidential
 candidate and Goddard Gunster, Washington-based referenda experts.); Paul Gallagher, *EU*
referendum: Controversial Leave.EU co-founder Arron Banks on why he’s happy to put noses out of
joint, *The Independent* (Dec. 7, 2015) (“*Cambridge Analytica*, a data-modelling firm that employs
 ‘psychographic profiling’ and who US Republican presidential hopeful Ted Cruz recently spent
 \$750,000 on, has helped boost Leave.EU’s social media campaign.”); Sam Burne James, *Leave.EU*
campaign brings in US voter data and messaging firm Cambridge Analytica, *PR Week* (Nov. 18,
 2015) (“Late last month [Leave.EU] also took on board Cambridge Analytica, a Washington DC,
 New York and London-based firm specialising in data and behaviour-driven work on elections. It is
 currently working with a number of Republican US presidential candidates.”).

1 210. On June 23, 2016, U.K. citizens voted to leave the EU – this news headlined major
 2 media:



10 211. The results were clear by the end of the (U.S.) day on June 23, 2016:



18 212. Facebook scrambled to prevent Kogan and GSR from talking to the media about their
 19 involvement in the Brexit vote.

20 213. On June 24, 2016, Facebook required Kogan and GSR to sign a new document, in
 21 addition to the two certifications that he signed on June 11, 2016. The June 24, 2016 document was
 22 a settlement agreement that forced Kogan and GSR to hold in “strict confidence” the fact that they
 23 had transferred 30,000,000 “likes” and personally identifiable information to Cambridge Analytica
 24 (via Nix/SCL).²¹² Facebook included a \$25,000 liquidated damages provision in the agreement, tied
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26
 27 ²¹² See Stimson Letter at 03 of 40 (responding to question five, “a formal agreement was signed by
 28 Dr. Kogan on 24 June 2016 . . . [a] copy of the agreement is enclosed”); see also *id.* at 21 of 40 (Settlement Agreement at §II.D.1).

1 to the “strict confidence” provision.²¹³ But the liquidated damages were small compared to another
 2 provision that Facebook required Kogan and GSR to sign, requiring them to pay all of Facebook’s
 3 “reasonable” legal fees and costs if they ever disclosed the truth to third parties like *The Guardian*.

4 214. Facebook further required Kogan and GSR to tell Nix and SCL Elections that *they*
 5 had to complete the same “CERTIFICATION” that Kogan and GSR completed, and that it “shall be
 6 completed within fourteen business (14) business days following receipt.”²¹⁴ But Nix – Cambridge
 7 Analytica’s CEO – and SCL Elections Limited (whose CEO was Nix) refused to sign any such
 8 “certifications” while they continued to abuse the purloined data to support the Trump campaign.

9 **6. The “Ugly Truth” Was It Did Not Matter to Facebook that**
 10 **Cambridge Analytica’s Deletion Certification Was Fraudulent**
 11 **– Cambridge Analytica Was a “Marketing Partner” with a**
 12 **Huge Ad Budget from the Trump Campaign**

13 215. Andrew Bosworth (“Bosworth”) was one of the 30 Facebook executives who knew
 14 about Facebook’s Cambridge Analytica investigation. He was the VP of Ads during the relevant
 15 time, reporting either to Zuckerberg, to Sandberg or to both of them.

16 216. Bosworth wrote an internal memorandum in 2020 to all employees that was
 17 “accidentally” leaked to the press a few days after internal publication. The internal post shows
 18 Facebook not only declined to “ban” Cambridge Analytica after discovering its certification fraud on
 19 June 11, 2016, but actually chose to let Cambridge Analytica stay within its elite group of “Facebook
 20 Marketing Partner[s] . . . , who other companies could hire to run their ads.”²¹⁵

21 _____
 22 ²¹³ *Id.* at 21 of 40 (June 11, 2016 Certs. and June 24, 2016 Settlement Agr. attachments) (III.B).

23 ²¹⁴ *Id.* at 20 of 40 (II.A.4); *id.* at 22 of 40 (III.B) (liquidated damages) or by Wednesday July 27,
 24 2016 at the latest. Kogan sent the form of Certification (the Exhibit B’s) out no later than July 7,
 25 2016 – one of the data transferees he identified (a University of Toronto researcher) signed it on that
 26 date, and Facebook gave it to the U.K. government, showing Kogan did what Facebook required him
 to do with the notices no later than July 7, 2016, though he more likely sent them out on June 24th.
 From the later July 7, 2016 “start date,” the Cambridge affiliates were on notice that Facebook
 required them to Certify, in writing, no later than Wednesday, July 27, 2016, but Cambridge
 defaulted.

27 ²¹⁵ *Lord of the Rings, 2020 and Stuffed Oreos: Read the Andrew Bosworth Memo*, N.Y. Times (Jan.
 28 7, 2020).

1 217. Bosworth’s colleague, Rose, ran the FMP program, while reporting to Sandberg.²¹⁶
 2 Facebook had previously called FMPs the “Preferred Marketing Developers.” That designation
 3 “described as the world’s most important social media marketing collective and certification
 4 program rolled into one.”²¹⁷ “Facebook grants certain privileges to PMDs, allowing them to collect
 5 analytics and serve ads into the social network with the latest and most advanced tools. Facebook
 6 often consults PMDs on “product plans” – they “have as close as it gets to an inside view on
 7 Facebook marketing.”²¹⁸ Facebook created the program “to help businesses scale their marketing
 8 efforts on Facebook,” with participants required to “meet or exceed Facebook partner standards.”²¹⁹
 9 Industry publications reported that there were only 12 companies like Cambridge Analytica that had
 10 been “awarded the media buying badge.”²²⁰

11 218. Bosworth knew about Facebook’s investigation into Cambridge Analytica as he wrote
 12 that Cambridge Analytica “certified to us *in writing* that they had” deleted the data in December
 13 2015/January 2016.²²¹
 14

15 ²¹⁶ Dawn C. Chmielewski, *Dan Rose, Facebook Executive Overseeing Partnerships, Is Leaving The*
 16 *Company*, Deadline (Aug. 22, 2018) (Rose, “[t]he 12-year Facebook veteran reports directly to COO
 17 Sheryl Sandberg, and oversees all of the social network’s partnerships - including its high-profile
 18 deal with the NFL to live-stream games.”); *Lord of the Rings, 2020 and Stuffed Oreos: Read the*
 19 *Andrew Bosworth Memo*, N.Y. Times (Jan. 7, 2020) (Quoting from a largely self-serving internal
 20 memo from “Andrew Bosworth, a longtime Facebook executive and confidant of Mark Zuckerberg”
 21 that Bosworth published to the entire company on an internal network, after Rose left Facebook:
 22 “The company Cambridge Analytica started by running surveys on Facebook to get information
 23 about people. It later pivoted to be an advertising company, part of our Facebook Marketing Partner
 24 program [during the 2016 campaign season], who other companies could hire to run their ads. Their
 25 claim to fame was psychographic targeting.”).

21 ²¹⁷ Cooper Smith, *Facebook Has A Program That Gives Special Access To Elite Marketers - These*
 22 *Are Their Insights*, Business Insider, Australia (Mar. 12, 2014).

23 ²¹⁸ *Id.*

24 ²¹⁹ *Making it Easier to Find the Right Partners: Updates to the Facebook PMD Program*, Facebook
 25 for Business (Oct. 22, 2014).

26 ²²⁰ Tim Peterson, *Social Media Marketing: Facebook is eliminating its Marketing Partners*
 27 *program’s mediabuying specialty, which will remove four agencies from the program*, Markeying
 28 Land (Nov. 21, 2016).

27 ²²¹ *Lord of the Rings, 2020 and Stuffed Oreos: Read the Andrew Bosworth Memo*, N.Y. Times (Jan.
 28 7, 2020).

1 219. In his self-exculpatory “leaked” retrospective company-wide internal communication
2 in 2020, which he wrote as the media continued raising questions about Facebook’s role in the 2016
3 election, Bosworth suggested that he personally believed, in 2016, that Cambridge Analytica’s
4 “psychographic targeting” was “snake oil.” But Cambridge Analytica had admitted to Facebook that
5 one of the key ingredients to this so-called snake oil was the stolen data; and, as of June 11, 2016,
6 Bosworth and everyone else on Facebook’s investigation team had a compelling reason to believe,
7 and did believe, that Cambridge Analytica had previously submitted a phony “certification” so that it
8 could keep using the data that it spent about a year and £750,000 harvesting from Facebook’s
9 servers.

10 220. On June 18, 2016, Bosworth wrote a company-wide memorandum that more
11 accurately reflects the context in which Bosworth and the rest of Facebook’s investigation team let
12 Cambridge Analytica stay in its preferred marketing program, despite its privacy violations:²²²

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27 ²²² Ryan Mac, Charlie Warzel & Alex Kantrowitz, *Growth At Any Cost: Top Facebook Executive*
28 *Defended Data Collection In 2016 Memo - And Warned That Facebook Could Get People Killed*,
Buzzfeed (Mar. 28, 2018).

1 Andrew Bosworth
2 June 18, 2016

3 The Ugly

4 We talk about the good and the bad of our work often. I want to talk about the ugly.

5 We connect people.

6 That can be good if they make it positive. Maybe someone finds love. Maybe it even
7 saves the life of someone on the brink of suicide.

8 So we connect more people

9 That can be bad if they make it negative. Maybe it costs a life by exposing someone to
10 bullies. Maybe someone dies in a terrorist attack coordinated on our tools.

11 And still we connect people.

12 The ugly truth is that we believe in connecting people so deeply that anything that
13 allows us to connect more people more often is "de facto" good. It is perhaps the only
14 area where the metrics do tell the true story as far as we are concerned.

15 That isn't something we are doing for ourselves. Or for our stock price (ha!). It is
16 literally just what we do. We connect people. Period.

17 That's why all the work we do in growth is justified. All the questionable contact
18 importing practices. All the subtle language that helps people stay searchable by
19 friends. All of the work we do to bring more communication in. The work we will
20 likely have to do in China some day. All of it.

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28 221. This real-time account of Facebook's growth mentality is telling. Bosworth wrote
this post a few days after being put on notice – as part of Facebook's Cambridge Analytica
investigation team who was privy to the certification process – that the certification was a fraud.²²³

²²³ *-Id.*

1 I know a lot of people don't want to hear this. Most of us have the
 2 luxury of working in the warm glow of building products consumers
 3 love. But make no mistake, growth tactics are how we got here. If you
 4 joined the company because it is doing great work, that's why we get to
 5 do that great work. We do have great products but we still wouldn't be
 6 half our size without pushing the envelope on growth. Nothing makes
 7 Facebook as valuable as having your friends on it, and no product
 8 decisions have gotten as many friends on as the ones made in growth.
 9 Not photo tagging. Not news feed. Not messenger. Nothing.

10 In almost all of our work, we have to answer hard questions about what
 11 we believe. We have to justify the metrics and make sure they aren't
 12 losing out on a bigger picture. But connecting people. That's our
 13 imperative. Because that's what we do. We connect people.

14 222. Bosworth's statements here go a long way to explaining why Facebook allowed
 15 Cambridge Analytica to continue operating on the platform after June 11, 2016. The psychographic
 16 "snake oil" that Cambridge Analytica peddled (per Bosworth) was based entirely on 30,000,000
 17 Facebook users' whitelisted, throttled data that Cambridge Analytica bought for £750,000.

18 223. This data was big business to Facebook as it supported Cambridge Analytica's efforts
 19 to drive user engagement around the Trump campaign. Harbath – one of the Facebook executives
 20 who worked on the "Republican team" at Facebook and met with Cambridge Analytica's Business
 21 Development director (Kaiser) from time to time – said, in 2016, that "US election was the **number**
 22 **one** most talked about topic **globally** on our platform."²²⁴ Sandberg similarly stated that "we're
 23 pretty excited about what's happening with the elections organically on Facebook" and that "the
 24 2016 election is a big deal in terms of ad spend," similar to the World Cup, Super Bowl and
 25 Olympics.²²⁵ And Zuckerberg noted, in 2016, that "Donald Trump has more fans on Facebook than

26 ²²⁴ Katie Harbath, *Campaigning on Facebook: Lessons from the US and around the world*,
 27 Campaigning Summit Europe 2016, YouTube (Mar. 25, 2016) at 2:30-39.

28 ²²⁵ Q4 2015 Facebook Inc. Earnings Call Tr. at 16 (Jan. 27, 2016); *see also* Q3 2015 Facebook Inc
 Earnings Call Tr. at 12 (Nov. 04, 2015) (Sandberg noted, with regards to "elections and political
 activity and political advertising, we're excited about the elections . . . over 68 million people on
 Facebook in the US made over 1 billion interactions about the campaign alone . . . [U.S. presidential
 candidate] Ben Carson ran 240 different ads targeted at different audiences. And so we're starting to
 see candidates use our platform to communicate, to advertise and to share.").

1 any other presidential candidate.”²²⁶ Cambridge Analytica – as the Trump campaign’s ad buyer at
 2 Facebook – represented a key source of user engagement and ad revenue, ultimately spending
 3 between \$75 million and \$85 million in ads.²²⁷

4 **G. Facebook “Embeds” Its Employees Inside the Center of Cambridge**
 5 **Analytica’s Data Center, Inside the Trump Campaign**

6 **1. Facebook’s Political Team “Embeds” Facebook Employees to**
 7 **Work in the Same Room as the Cambridge Analytica Data**
 8 **Team Supporting the Trump Campaign**

9 224. By the end of June 2016, Facebook “embedded” at least three political advertising
 10 employees to work alongside Cambridge Analytica, which, in turn, was embedded inside the Trump
 11 campaign’s digital operations in San Antonio, Texas. These Facebook employees collaborated with
 12 Cambridge Analytica inside of “the center of the data center,” as Trump campaign official Theresa
 13 Hong explained to the *BBC*, as she walked a *BBC* reporter and film crew through the office where
 14 the data center was set up in June 2016.²²⁸

15 225. The Facebook employees who were embedded with Cambridge Analytica saw
 16 Cambridge Analytica’s name printed on the directory of the location where they would report for
 17 work during that time. The operation was named “Project Alamo” by Cambridge Analytica, based
 18 upon the Cambridge Analytica dataset:

19 ²²⁶ Alex Johnson & Matthew DeLuca, *Facebook’s Mark Zuckerberg Meets Conservatives Amid*
 20 *‘Trending’ Furor*, NBC News (Mar. 18, 2016).

21 ²²⁷ Facebook party admissions state the Trump and Clinton campaigns spent “approximately \$81
 22 million” on Facebook ads, “combined.” Social Media Influence in the 2016 US Elections: Hearing
 23 before the S. Rep. Select Comm. on Intelligence, 115th Cong. (Nov. 1, 2017) at 41. A Trump
 24 campaign official helps split that figure: the Trump campaign spent approximately \$75 million on
 25 Facebook ads (80% of its \$94 million budget). Philip Bump, *‘60 Minutes’ profiles the genius who*
 26 *won Trump’s campaign: Facebook*, Wash Post (Oct. 9, 2017) at 2. Thus, the Clinton campaign
 27 spent approximately \$6 million (the \$81 million combined minus the \$75 million Trump share)
 28 based on these sources. A U.K. government report states that Project Alamo “spent \$85 million on
 Facebook adverts.” See House of Commons, Dig., Culture, Media and Sport Comm.,
Disinformation and ‘fake news’: Final Report (Feb. 14, 2019) (“U.K. Parliamentary Comm. Final
 Rep.”) at 40. Both the \$75 million and the \$85 million likely are correct but the \$85 million likely
 includes Trump super PAC ads that Cambridge Analytica purchased in parallel with Project Alamo.

²²⁸ *The digital guru who helped Donald Trump to the presidency*, BBC News (Aug. 17, 2017)
 (video shows the room’s size).



7 226. Hong demonstrated where Facebook’s employees worked when they were embedded
8 with Cambridge Analytica in a small room with “a line of computers” inside of the Cambridge
9 Analytica center that “speciali[z]ed in psycho-graphics”:



16 227. Hong said Facebook sent the embeds to serve as the campaign’s “hands-partners.”

17 228. Some of the Facebook embeds worked inside of the Cambridge Analytica
18 psychographics data center. Another Trump campaign official (Brad Parscale) told reporters that
19 “we had [Facebook] – their staff embedded inside our offices,” and that “Facebook employees would
20 show up for work every day in our offices” – “sittin[g] right next to us.”²²⁹ Parscale “wanted people
21 who support Donald Trump,” which was feasible because Facebook “already ha[d] divisions set up
22 that way.”²³⁰ Facebook’s executive Harbath agreed with this account, having shared information

23
24 ²²⁹ Unlike the Facebook embeds, Parscale was not sitting inside of the Cambridge Analytica data
25 center. Brittany Kaiser, *Targeted: The Cambridge Analytica Whistleblower’s Inside Story of How
26 Big Data, Trump, and Facebook Broke Democracy and How it Can Happen Again*, 2019 (Kaiser,
27 “*Targeted*”) (“Parscale had been a longtime website designer for Trump, and Trump had picked him
28 to run his digital operations. The problem was that Parscale had no data science or data-driven
communications experience, so Bekah [Mercer] knew that Trump needed Cambridge [Analytica].”).

²³⁰ Lesley Stahl, *Facebook “embeds,” Russia and the Trump campaign’s secret weapon*, CNBC, 60
Minutes (Oct. 08, 2017).

1 with researchers that she was “serving as the director over dedicated Democratic and Republican
 2 teams” at the time²³¹ and the partisan structure “facilitate[d] working relationships with
 3 campaigns.”²³² Harbath shared on social media that the role involved “working in the Facebook DC
 4 office leading the team helping elected officials, politicians and governments around the world use
 5 Facebook to communicate with constituents/voters.”²³³

6 229. Cambridge Analytica executive (Kaiser) emailed with one of the senior people from
 7 the Cambridge Analytica data team, “which consisted of Matt Oczkowski, Molly Schweickert and a
 8 handful of [other] data scientists” at the time, and Kaiser would later provide written confirmation:
 9 “*Seated beside* Molly, Matt, and our [other] data scientists were embedded *employees from*
 10 *Facebook*,”²³⁴ consistent with Hong, Parscale and Harbath’s accounts.

11 **2. Facebook Embeds Witnessed Cambridge Analytica Deploying**
 12 **Unique Facebook User Identification Numbers to Target**
 13 **Voters – Showing that Facebook Was the Source of Cambridge**
 14 **Analytica’s Data**

15 230. From June 24, 2016, through the completion of the U.S. presidential election,
 16 Facebook’s “embeds” who walked to their work stations inside the Trump-Cambridge Analytica
 17 data center were directed to the second floor of the building by this sign in the lobby:



23 ²³¹ Daniel Kreiss & Shannon C. McGregor, *Technology Firms Shape Political Communication: The*
 24 *Work of Microsoft, Facebook, Twitter, and Google With Campaigns During the 2016 U.S.*
 25 *Presidential Cycle*, Journal of Political Communication (Oct. 26, 2017) at 162.

26 ²³² *Id.*

27 ²³³ *Partisan Programming: How Facebook and Google’s Campaign Embeds Benefit Their Bottom*
 28 *Lines*, Campaign for Accountability, Google Transparency Project (Aug. 2018); *Id.*, Appendix A:
 Google Elections and Politics Employees.

²³⁴ Kaiser, *Targeted*.

1 231. The Facebook embeds helped Cambridge Analytica target potential voters by way of
 2 an ad tool that Facebook called “Custom Audiences” – this tool enabled advertisers like Cambridge
 3 Analytica to target specific segments of a population based upon data that they (the advertisers)
 4 already possessed by uploading lists of their targeted customers to Facebook who would send those
 5 particular customers the advertisements via the Facebook platform.²³⁵ Cambridge Analytica needed
 6 to name the lists and include an “identifier” for each person on the list.²³⁶

7 232. Cambridge Analytica named its custom audiences – sometimes called universes – by
 8 “personality type” thereby alerting Facebook to the fact that it was still using psychographics.²³⁷

9
 10 ²³⁵ Facebook senior management communicated about the custom audiences tool externally and
 11 internally. *See, e.g.*, Q4 2012 Facebook, Inc. Earnings Call Tr. at 5 (Jan. 30, 2013) Sandberg on
 12 investor conference call (“As Mark said, one of the products we’re most excited about is **Custom**
 13 **Audiences**, which lets marketers show their ads to exactly the right people . . . [a] large retailer, for
 14 example, **can send one set** of ads to customers who typically buy sporting goods, **and a different set**
 15 **of ads** to those who would purchase TV products . . . **some of the best targeting** available . . .
 16 [allowing retailers] to **target specific segments** of its customer database.”). Zuckerberg, Sandberg,
 17 Rose and others would communicate about the Custom Audiences tool internally from time to time.
 18 *See, e.g.*, Six4Three Documents, Ex. 184 at FB-101366934 (Facebook internal email among
 19 Zuckerberg, Sandberg, Rose and others noting “Custom Audiences or link page posts” drive
 20 approximately “(~320B annually)” through a “Consideration” marketing funnel that “is about getting
 21 people who know about what you do to want to buy (or buy it sooner)”; *see also* Six4Three
 22 Documents, Ex. 40 at FB-00943407 (Facebook internal email among Sandberg and others about,
 23 among other things, “news fee and custom audiences” in relation to various market opportunities);
 24 *see also* Six4Three Documents, Ex. 27 at FB-01381973 (Facebook internal daily media summary
 25 noting: “Earlier this week, Facebook’s new advertising policies raised some privacy concerns. The
 26 new Custom Audiences advertising feature allows marketers to target their ad or sponsored story to a
 27 specific set of users using phone numbers or email addresses posted on the site. Facebook COO
 28 Sheryl Sandberg defended the new feature and stated that ‘we never sell user information, we don’t
 make money when you share more, and we do not give your information to marketers.’”).

20 ²³⁶ *See, e.g.*, *Use a Customer List to make a Custom Audience*, Facebook for Business (Facebook:
 21 “To make a Custom Audience from a customer list, you provide us with information about your
 22 existing customers and we match this information with Facebook profiles. The information on a
 23 customer list is known as an ‘identifier’ (such as email, phone number, address) and we use it to help
 you find the audiences you want your ads to reach. . . . Prepare your customer list: Select the
 identifiers to include, then add the customer list you want to use for your new Custom Audience and
 give it a name.”).

24 ²³⁷ *See, e.g.*, SEC Complaint at ¶35 (“As an additional indication to Facebook that Cambridge might
 25 have been misusing Facebook user data, some employees on **Facebook’s political advertising team**
 26 **knew** from August 2016 through November 2016 that Cambridge **named** Facebook and Instagram
 27 advertising **audiences by personality trait** for certain clients that included advocacy groups, a
 28 commercial enterprise, and a political action committee.”); *see also* Canada Report at ¶26 (“Lists of
 individuals **based on certain traits** were then used [by Cambridge Analytica] to target political
 messaging to very specific groups based on those psychological profiles (including by creating
 ‘custom audiences’ for targeting advertisements on Facebook.”).

1 Cambridge Analytica also used Facebook user identification numbers (called “Facebook User IDs”
2 or “UIDs”) that were unique to each psychographic target.²³⁸ This fact is significant because it
3 revealed that the company’s database rested on data that Cambridge Analytica had previously
4 harvested from Facebook itself.

5 233. The Facebook employees embedded at Cambridge Analytica knew that Cambridge
6 Analytica was still using the improperly accessed Facebook user data. Indeed, the Facebook
7 employees embeds showed campaign personnel and Cambridge staff how to aggregate look-alikes
8 [and] create custom audiences,”²³⁹ and because the personality names of the lists and the UIDs were
9 part of that process, the embeds saw these facts.²⁴⁰ The Facebook User IDs and the custom
10 audiences (named by “personality type”) further tied the Project Alamo data to the data that
11 Cambridge Analytica misappropriated and then misrepresented in its January 2016 “certification” of
12 deletion to Facebook, as Facebook discovered on June 11, 2016.

13
14 _____
15 ²³⁸ One of the Cambridge Analytica data scientists who worked on Project Alamo with the embeds
16 and others at Facebook, Molly Schweickter, admitted this fact at a conference after the election in
17 describing “an integration with the campaign’s database such that we would be able to flag someone
18 that had returned their ballot, we were then connecting attribution *particularly through Facebook*,
19 because since that’s *a person-based ID*, we could then see if someone saw an ad, and, ultimately, the
individual associated with *the ad id* – that saw that ad – turned in their ballot.” See *d3Con2017 -*
Molly Schweickert Cambridge Analytica, Digital Life Design Conference, YouTube (Feb. 26, 2018);
see also FTC Cambridge Complaint at ¶24 (“the GSRApp collected the Facebook User ID of those
users who authorized it . . . [a] Facebook User ID is a persistent, unique identifier that connects
individuals to their Facebook profiles”).

20 ²³⁹ Kaiser, *Targeted* at 193-94.

21 ²⁴⁰ The personality score names and Facebook User ID fields would have been obvious red flags to
22 Facebook that Cambridge Analytica continued using the data that it paid Kogan 750,000 GBP to
23 misappropriate. See, e.g., Facebook, Responses to U.S. Senate Committee on the Judiciary,
24 Questions for the Record addressed Chairman Grassley (June 8, 2018) at 128 (“Cambridge Analytica
25 *used hundreds* of Contact List Custom Audiences during the 2016 election cycle created from
26 contact lists that Cambridge Analytica uploaded to our system, and Cambridge Analytica used those
27 and other custom audiences in the majority of its ads targeting in combination with demographic
28 targeting tools,” like gender and ethnicity). Importantly, Cambridge Analytica only took Facebook
User IDs – not emails, phone number or app ids from Facebook – and those were the only fields that
Facebook’s embeds and Cambridge Analytica could have used to create the Custom Audiences. See,
e.g., (Facebook January 2016 Customer List instructions to use in creating Custom Audiences,
showing advertisers can use one of four identifiers: “emails, phone numbers, Facebook user IDs or
mobile advertiser IDs”); (Facebook January 2016 Customer List; *see also* (Facebook November
2016 Customer List instructions to use in creating Custom Audiences showing same) (Facebook
November 2016 Customer Lists).

1 234. Cambridge Analytica’s “personality” universes and unique Facebook User IDs
2 became increasingly important as Project Alamo entered into its “persuasion” phase starting in July
3 2016 followed by the “[g]et out the vote” phase closer to election day.²⁴¹

4 235. A Trump campaign official shed light on what the embeds would have been seeing
5 and hearing (seated next to Cambridge Analytica) during this time inside Project Alamo:²⁴²

6 [BBC Reporter]: Were they [Cambridge Analytica] able to kind of understand
7 people’s personalities?

8 [Trump Campaign Official Hong]: Yeah, I mean, you know, they do specialize in
9 psychographics, right? But based on personal interests, and based on what they, you
know, a person cares for, and what, you know, means something to them, they were
able to extract, and then we were able to target.

10 [BBC Reporter]: So the *psychographic stuff*, were they using that here, was
11 that part of the model that you were working off of?

12 [Hong]: Well, I mean, toward the end with the persuasion, you know,
absolutely. I mean, *we really* [were] targeting *on these universes* that they had
13 collected.

14 236. Cambridge Analytica had previously disclosed the origins of their psychographic
15 scores to Facebook on December 15, 2015, in its written confirmation that Cambridge Analytica
16 “subcontracted the research phase of the *psychographic data* project to GSR, who provided us with
17 an append to our voter file containing the psychographic scoring.” That same email ruled out public
18 data sources (and RNC data) as inputs to the psychographics; those off-the-shelf and RNC data were
19 *not* used for psychographics but only for political predictions:²⁴³

20
21
22
23
24 ²⁴¹ Kaiser, *Targeted* at 193.

25 ²⁴² Transcription, *Secrets of Silicon Valley – The Persuasion Machine – Alexander Nix*, BBC (2017)
26 (“Persuasion Machine Tr.”) at 6:12-23.

27 ²⁴³ Allan Smith, *Leaked email shows how Cambridge Analytica and Facebook first responded to*
28 *what became a huge data scandal*, Business Insider (Mar. 22, 2018) (Cambridge Analytica’s
emailed responses to Facebook, responding to questions that Facebook investigation teammate
Hendrix sent to Cambridge Analytica via email on December 12, 2015).

1 <http://fortune.com/2015/12/11/led-cruz-facebook-data/>

2 This article suggests that we model from Facebook likes. In actuality, the data we use for making political predictions is based on the voter file (public record) enriched with consumer and lifestyle that we have licensed from Axiom, Infogroup, Aristotle, L2 and the RNC DataTrust. The article also suggests that we have collected information from Facebook without users permission. This is incorrect, we haven't taken data from Facebook, and Cambridge Analytica has never collected primary data without individual consent.

3 <http://qzmode.com/led-cruz-might-have-your-facebook-data-depending-on-ho-1747523800>

4 This article states that Cambridge Analytica paid people \$1 to allow us to access their Facebook profile. This is untrue: we have not directly engaged with people over Facebook except through paid advertising. Rather, we subcontracted the research phase of the psychographic data project to GSR, who provided us with an append to our voter file containing the psychographic scoring.

5
6 A few days later, Facebook spoke with Cambridge Analytica about the sources of the
7 psychographics, and memorialized, again, that the psychographics rested on Kogan's stolen data:
8 "You have told us that you received *personality score data* from Dr. Kogan that was derived from
9 Facebook data, and those scores were assigned to individuals included in lists that you maintained,"
10 which was "in violation of our terms." ¶177. Facebook understood how GSR had harvested and
11 modeled the personality scores based upon the 30 million Facebook users' data. §IV.E.4.

12 237. Facebook's political team – "embedded" inside Cambridge Analytica's Trump
13 operations – was aware of all these findings because they commenced the investigation into
14 Cambridge Analytica and stayed involved in it. Thus, when they saw and heard discussions about
15 "psychographics," they would have known Cambridge Analytica was still using the misappropriated
16 data that violated Facebook's policies.

17 **3. The Facebook Employees Embedded with Cambridge**
18 **Analytica Saw that Cambridge Analytica Relied upon the**
19 **Same Misappropriated Data It Used in the Cruz Campaign**
20 **Because Trump Had Little Data/Models and Not Enough Time**
21 **to Build Them Before the Election**

22 238. Indeed, the Facebook embeds knew Cambridge Analytica did not have time to re-
23 create that data set, which had taken over a year to build and model. Further, when these Facebook
24 employees arrived at Cambridge Analytica in June 2016, the "Trump campaign's digital operations
[were] in an alarming state of disarray" and the Cambridge Analytica team was "horrified to find
[the campaign] had no existing voter models of its own, nor any marketing apparatus."²⁴⁴

25 ²⁴⁴ Paul Lewis & Paul Hilder, *Leaked: Cambridge Analytica's blueprint for Trump victory*,
26 *Guardian* (Mar. 23, 2018); *see also* Kaiser, *Targeted* at 192 (In June 2016, the "Trump campaign's
27 digital operations [were] in an alarming state of disarray" and the Cambridge Analytica team was
28 "horrified to find [the campaign] had no existing voter models of its own, nor any marketing
apparatus."); *see also* Transcription, *It's Personal! Your Real Relationship with Data*, Digital Life
Design Conference, YouTube (Jan. 22, 2017) at 4:25-5:6 ("And then after Donald Trump's team
won the primary election, I think they realized suddenly that now they had to run a presidential
THIRD AMENDED CONSOLIDATED CLASS ACTION COMPLAINT FOR VIOLATIONS OF THE
FEDERAL SECURITIES LAWS - 5:18-cv-01725-EJD

1 239. Cambridge Analytica’s CEO verified that they kept using the Facebook data they had
2 harvested in 2014-2015; Facebook’s internal investigation proved these harvests violated its stated
3 policies.²⁴⁵

4 [BBC REPORTER]: I want to start with the Trump Campaign. Did
5 Cambridge Analytica ever use psychometric or psychographic methods in this
6 campaign?

7 ALEXANDER NIX: We left the Cruz Campaign in *April [2016]* after the
8 nomination was over. We pivoted *right across* onto the Trump Campaign. It was
9 about five and a half months before polling. And whilst on the Cruz campaign we
10 were able to do invest a lot more time into building psychographic models, into
11 profiling, using behavioral profiling to understand different personality groups, and
12 different personality drivers in order *to inform our messaging, and our creative*.
13 We simply *didn’t have the time* to employ this level of rigorous methodology for
14 Trump.

15 * * *

16 ALEXANDER NIX: Now, there is clearly some legacy psychographics in the
17 data, because the data is model data, all of it, *is model data that we’ve used* across
18 the last 14, 15 months of campaigning *through the [2014] midterms and through*
19 *the [2015-2016] primaries*. But specifically, did we build specific psychographic
20 models for the Trump Campaign, no, we didn’t.

21 [BBC REPORTER]: So you didn’t build specific models for this campaign,
22 but it sounds like you did use some element of *psychographic modeling* as an
23 approach in the Trump Campaign.

24 ALEXANDER NIX: *Only, only as a result of legacy data models*. So the
25 answer is – the answer you’re looking for is no.

26 [BBC REPORTER]: The answer I’m looking for is to the extent to which it
27 was used. I mean, *I don’t know what that means, legacy data modeling, what does*
28 *that mean for the Trump Campaign?*

ALEXANDER NIX: Well, so we were able to take models that we’ve made
previously *over the last two or three years*, and *integrate those into some of the*
work we were doing.

[BBC REPORTER] (Voice Over): Where did all the information to predict
voters’ personalities come from?

election. When we started working for Trump for America in June, there was probably less than 30
people working for his campaign. They made very little investment into data or science or modern
advertising technology.”); ¶239 (Nix stating Cambridge Analytica “simply didn’t have the time” to
make new models and collect new data for Trump, so used “legacy models” based on “Facebook”
data.).

²⁴⁵ Persuasion Machine Tr. at 12:11-13:2; 13:9-14:16. Facebook provided statements on the record
to the BBC for the BBC to read.

1 ALEXANDER NIX: Very originally, we used a combination of telephone
2 surveys, and then we used a number of *online platforms for gathering questions*.
3 As we started to gather *more data*, we started to look at other platforms *such as*
4 *Facebook*, for instance.

5 240. Facebook’s employee embeds also helped Cambridge Analytica design ads for the
6 Trump campaign.²⁴⁶ This part of the ad campaign process also relied upon the Facebook-based
7 psychographics. Above, Nix stated that his Cruz team used “behavioral profiling to understand
8 different personality groups, and different personality drivers in order to inform our messaging, and
9 our creative.” “Messaging” and “creative” refers to the ads themselves.

10 241. Trump campaign official Hong said that Cambridge Analytica’s data and modelling
11 drove the creative ads process – the images, message, and tone of the Trump ad campaigns.²⁴⁷ Prior
12 to October 27, 2016, a “senior official” in the Trump campaign told *Bloomberg* that the campaign
13 had ““three major voter suppression operations under way”” – focused on ““idealistic white liberals,
14 young women, and African Americans.””²⁴⁸ One ad – titled: “Hillary Thinks African Americans are
15 Super Predators” – was “delivered to certain African American voters through Facebook ‘dark posts’
16 – nonpublic posts whose viewership the campaign controls so that, as [Project Alamo/Trump
17 campaign official] Parscale puts it, ‘only the people we want to see it, see it.’” In a “confidential
18 document seen by Channel 4 News, Cambridge Analytica admitted the Trump campaign did target
19 ‘AA’ (African Americans) with what it called the ‘Predators video’ – spending \$55,000 USD in the
20 state of Georgia alone.”²⁴⁹ That video advertisement “received millions of views on Facebook.”²⁵⁰

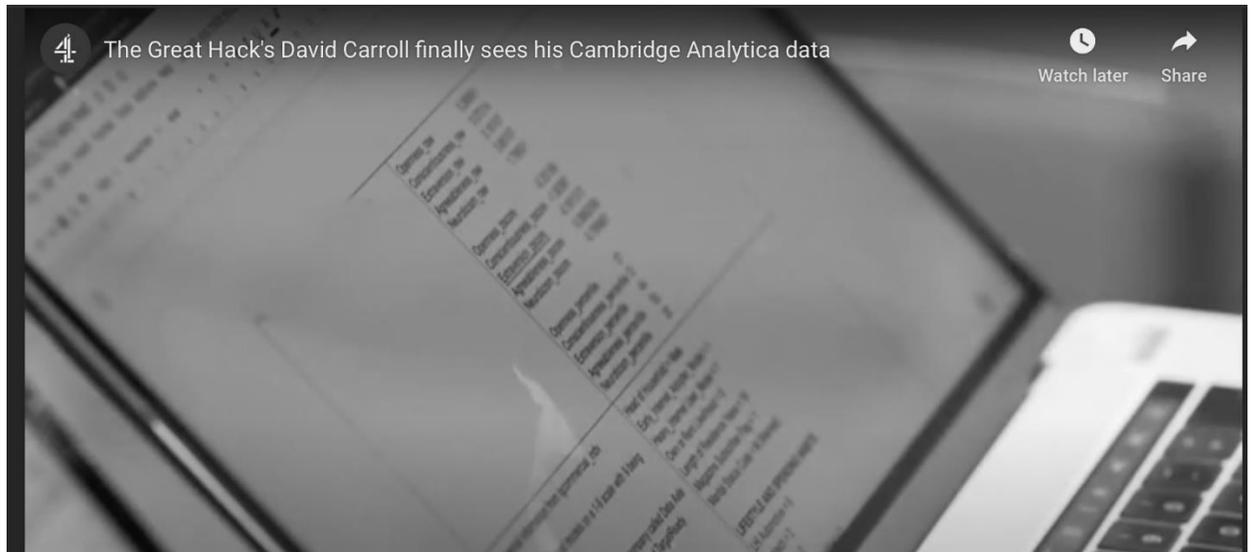
21 ²⁴⁶ Emily Glazer & Jeff Horwitz, *Facebook Curbs Incentives to Sell Political Ads Ahead of 2020*
22 *Election*, Wall St. J. (May 23, 2019) (“And in at least one instance, Facebook employees wrote
23 potential Trump campaign ads, according to a person familiar with the matter and records reviewed
24 by The Wall Street Journal.”). Facebook paid the embeds commissions to sell ads to the Trump
25 campaign, though Harbath says Facebook no longer follows that compensation model.

26 ²⁴⁷ See, e.g., Persuasion Machine Tr. at 7:21-8:10 (“Now we’re going to go into the big kind of
27 bullpen where a lot of the creatives were, and this is where I was as well . . . [t]his universe right
28 here, that Cambridge Analytica, they’ve collected data, and they have identified as working mothers
that are concerned about childcare.”).

²⁴⁸ Joshua Green & Sasha Issenberg, *Inside the Trump Bunker, with Days to Go*, *Bloomberg* (Oct.
27, 2016).

²⁴⁹ *Id.*

1 242. Channel 4 News also obtained copies of the database that Cambridge Analytica
 2 deployed while Facebook was embedded. That database “reveals that 3.5 million Black Americans
 3 were categorised by Trump’s campaign as ‘Deterrence’ – voters they wanted to stay home on
 4 election day.” The database “[had] a score for personality type” in it.²⁵¹ There were scores for
 5 “openness, conscientiousness, extraversion, agreeableness and neuroticism.”²⁵² The database was
 6 easy to use – a reporter quickly retrieved Professor David Carroll’s scores:²⁵³



16 “*Just a click is all it took,*” as Professor David Carroll explained. It would be absurd to suggest that
 17 the Facebook embeds were unaware of the facts that “a click” revealed, given the degree to which
 18 they support Cambridge Analytica’s activities.

19 243. The “Facebook embeds showed campaign personnel and Cambridge [Analytica] staff
 20 how to aggregate look-alikes” – audiences similar to custom audiences – “*create custom audiences,*
 21 and implement so-called *dark ads,* content that only certain people could see on their feeds.”²⁵⁴

22

23 ²⁵⁰ *Revealed: Trump campaign strategy to deter millions of Black Americans from voting in 2016,*
 Channel 4 News (Sept. 28, 2020).

24 ²⁵¹ *Id.*

25 ²⁵² *It works as a suppression system, it works to subvert the will of the people’ – Professor David*
 26 *Carroll,* Channel 4 News (Sept. 29, 2020).

27 ²⁵³ *Id.*

28 ²⁵⁴ Kaiser, *Targeted* at 193-94.

1 Facebook helped Cambridge Analytica target – via custom audiences (targeting) and dark ads
 2 (messaging) – African Americans by race at levels that were disproportionate to their share of the
 3 overall population, showing that race was an important factor in the targeting.

4 244. The team at Channel 4 that obtained a copy of the Project Alamo database reported
 5 these examples:²⁵⁵

6 In Michigan, a state that Trump won by 10,000 votes, 15% of voters are black. But
 7 they represented 33% of the special deterrence category in the secret database,
 8 meaning black voters were apparently disproportionately targeted by anti-Clinton
 9 ads.

10 In Wisconsin, where the Republicans won by 30,000, 5.4% of voters are black, but
 11 17% of the deterrence group. According the Channel 4, that amounted to more than
 12 a third of black voters in the state overall, all placed in the group to be sent anti-
 13 Clinton material on their Facebook feeds.

14 These facts are consistent with Barnes’ characterization of the Trump campaign’s core message, as
 15 *The Wall Street Journal* reported: “Trump’s slogan, Make America Great Again, was about
 16 ‘activating the deepest, darkest, soul of white nationalism.’” Unfortunately, Zuckerberg, Sandberg,
 17 Kaplan and Harbath’s May 2016 assurances to the Trump campaign’s leadership that Facebook
 18 would give it special training, coupled with the \$75-85 million dollar ad “Super Bowl” – as
 19 Sandberg saw it – meant that the embeds had to keep supporting the Trump campaign.

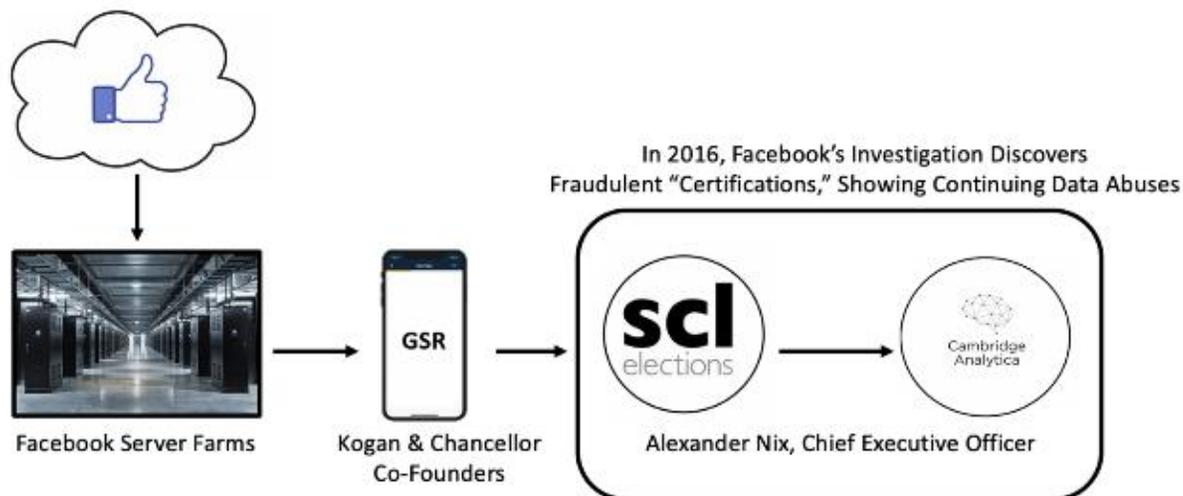
20 **H. The Facebook Cambridge Analytica Investigation Team Learns that a**
 21 **Cambridge Analytica Affiliate, Which Participated in the Data Scam,**
 22 **Refuses to Sign Facebook’s “Full Legal Contract” that Facebook**
 23 **“Required” Others to Sign by August 2016**

24 245. On September 6, 2016, Facebook’s investigation team learned new facts showing
 25 Cambridge Analytica was still abusing the subject data. The new facts came from one of the entities
 26 in the data transfer chain, SCL Elections Limited, a U.K. entity and affiliate of Cambridge Analytica,
 27 LLC, the U.S. entity involved in U.S. elections.

28 246. SCL Elections and Cambridge Analytica were both involved in the data heist and
 shared a common CEO –Nix. All of their roles in the data harvest were clear to Facebook well

26 ²⁵⁵ *Revealed: Trump campaign strategy to deter millions of Black Americans from voting in 2016,*
 27 Channel 4 News (Sept. 28, 2020) (“Trump 2016 campaign ‘targeted 3.5m black Americans to deter
 28 them from voting’ Secret effort allegedly focused on 16 swing states, several narrowly won by
 Trump after the black Democrat vote collapsed.”).

1 before September 6, 2016: Facebook’s users trusted Facebook to safeguard their estimated 17.1
 2 billion “likes” and other personal data; Facebook transferred all of that data to GSR via
 3 “whitelisting” and other illicit means; GSR sold the data (including derivatives) to SCL Elections
 4 Limited; and SCL (via its CEO, Nix), in turn, gave the data to Cambridge Analytica. §IV.D.-E. A
 5 simplified illustration of this data flow follows:²⁵⁶



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247. On September 6, 2016, “SCL Elections” told Facebook’s investigation team (in an apparent oral communication) *“that SCL had permanently deleted all Facebook data and derivative data received from GSR and that this data had not been transferred or sold to any other entity.”*²⁵⁷ That statement was false, as Facebook knew at the time.

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248. Cambridge Analytica – another “entity” – admitted to Facebook that it had received the stolen data. In responding to the Facebook investigation team’s questions on December 12, 2015, for example, Cambridge Analytica’s Chief Data Officer (Tayler) wrote that he was “cc’ing in our CEO, Alexander Nix,” in “commenting on those sections [in news articles] relevant to

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²⁵⁶ In this demonstrative, the image of a Facebook server farm is from a September 29, 2016 article by The Verge, entitled: “Mark Zuckerberg shares pictures from Facebook’s cold, cold data center.”

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²⁵⁷ Facebook, Responses to U.S. Senate Committee on Commerce, Science, and Transportation, Questions for the Record addressed to Chairman John Thune (June 8, 2018) at 126.

1 *Cambridge Analytica*.²⁵⁸ In that same email, Tayler and Nix commented on an article by *Gizmodo*
 2 and wrote that “Cambridge Analytica” did not pay people to take personality quizzes but that “we
 3 subcontracted the research phase of the *psychographic data* project to *GSR*, who provided us with
 4 an append to our voter file containing the *psychographic scoring*.”²⁵⁹ These facts illustrate that
 5 “Cambridge Analytica” *had* received the stolen data, contrary to SCL’s September 6, 2016 (oral)
 6 representation that the data “had *not* been transferred or sold to any other entity.”²⁶⁰

7 249. SCL’s September 6, 2016 oral representation was not just false; it constituted a
 8 refusal to provide a written certification, which also alerted Facebook’s investigation team to the fact
 9 that Cambridge Analytica was still abusing the stolen data. One of the terms of Facebook’s June 24,
 10 2016 “settlement” contract with Kogan and Chancellor’s GSR company was that GSR had to
 11 recover written “certifications” of deletion from SCL – the foreign affiliate of Cambridge Analytica
 12 – no later than mid-July 2016.²⁶¹ Zuckerberg would later give testimony admitting the
 13 “certification” was a “full legal contract.”²⁶² Facebook has stated that it had “*demand*
 14

15 ²⁵⁸ Allan Smith, *Leaked email shows how Cambridge Analytica and Facebook first responded to*
 16 *what became a huge data scandal*, Business Insider (Mar. 22, 2018).

17 ²⁵⁹ *Id.*

18 ²⁶⁰ Facebook, Responses to U.S. Senate Committee on Commerce, Science, and Transportation,
 Questions for the Record addressed to Chairman John Thune (June 8, 2018) at 126.

19 ²⁶¹ Facebook, Responses to House of Commons, Dig., Culture, Media and Sport Comm. to Damian
 20 Collins (May 14, 2018) at 20 of 40 (Confidential Settlement Agreement and Mutual Release at
 21 §II.A.4.) (“GSR will notify all persons that accessed or received App Data from GSR or Dr. Kogan
 22 or with whom either GSR or Dr. Kogan shared or disclosed App Data that all App Data is to be
 23 permanently deleted. *GSR will also provide all persons receiving notice with a Certification in the*
form attached as Exhibit B. GSR will inform all such persons [who received the 30 million users’
 Facebook “likes” and other personal data] that this notification *shall be completed within fourteen*
(14) business days following receipt by such persons.”). July 14, 2016 was 14 business days after
 June 24, 2016.

24 ²⁶² Comm. Hearing Tr., Senate Commerce, Sci. and Transp. Comm. and Senate Judiciary Comm.
 25 Joint Hearing on Facebook (Apr. 10, 2018) at 35-36 (“Senator Whitehouse: OK. And with *respect*
 26 *to Cambridge Analytica*, your testimony is that first *you required them to formally certify* that they
 27 had deleted all improperly acquired data. Where did that formal certification take place? . . .”
 28 Zuckerberg: “Senator, first *they sent us an e-mail notice* from their chief data officer telling us that
 they didn’t have any of the data any more, that they deleted it and weren’t using it. And then later
 we followed up with, I believe, *a full legal contract* where they certified that they had deleted the
 data.”).

1 certifications” after learning of the data transfer “in 2015.”²⁶³ These facts raise a compelling
 2 inference that Facebook, in substance, called SCL on September 6, 2016 to “demand” that it sign a
 3 “full legal contract” (or at least *something*) in writing that SCL had deleted the data – and that SCL
 4 said, in substance, “no.” Cambridge Analytica never signed a “full legal contract” or gave any
 5 written certification other than the one Facebook discovered to be a fraud on June 11, 2016; as to
 6 SCL, it refused to put anything in writing about deleting data until April 3, 2017 – *16 months* after
 7 Facebook “demanded” it, and *six months* after the Trump campaign was finished.²⁶⁴

8 250. Cambridge Analytica’s affiliate, SCL, would *not* sign Facebook’s “demanded
 9 certification” deletion at any point before the Trump election was over because its affiliate (and
 10 source of the £750,000 funding the data harvest) was *still using* the data, as Facebook knew.
 11 Facebook’s investigation into Cambridge Analytica continued to discover more facts that Cambridge
 12 Analytica was misusing the purloined data in the Trump campaign.

13 **I. Facebook’s Investigation Team Witnesses a Cambridge Analytica**
 14 **Presentation and Interview that, in Combination with Private Emails**
 15 **from Cambridge, Show Cambridge Analytica Is Using the**
 16 **Misappropriated Data in the Trump Campaign**

17 **1. Facebook’s Investigation Team Watches Nix’s September 2016**
 18 **Concordia Presentation**

19 **a. Cambridge Analytica “Is Using” Personality Scores**

20 251. Cambridge Analytica – with Facebook’s support – sent selected African Americans
 21 listed in Cambridge Analytica’s psychographic database the exact same disengagement ads during

22 ²⁶³ Jonathan Shieber & Taylor Hatmaker, *Facebook suspends Cambridge Analytica, the data*
 23 *analysis firm that worked on the Trump campaign* (Mar. 16, 2018).

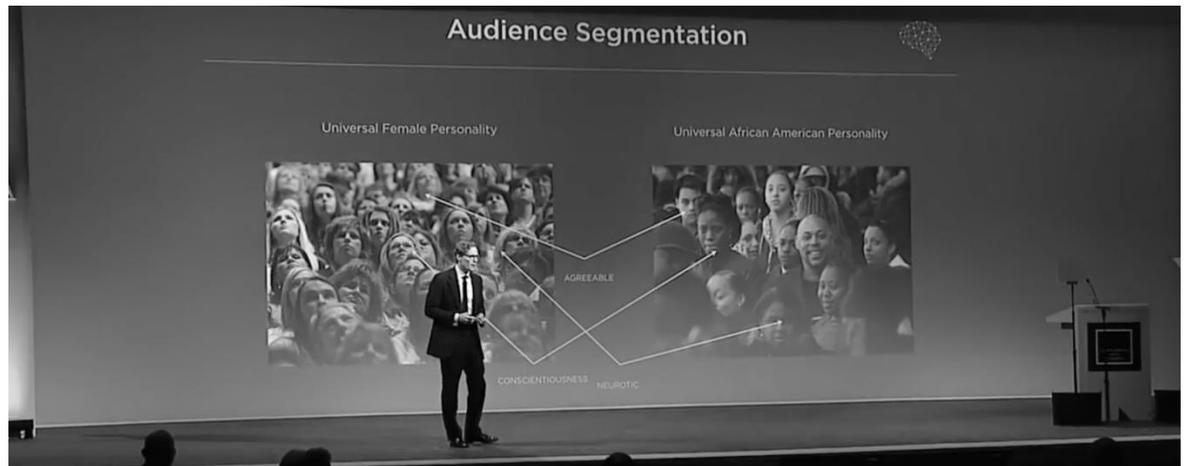
24 ²⁶⁴ That date, April 3, 2017, also was well after Facebook collected its \$75-\$85 million in
 25 advertising revenue from Cambridge Analytica’s Trump work *while* its “embeds” were working
 26 inside the Cambridge Analytica data. Facebook removed the “Date” line from that April 3, 2017
 27 SCL “certification,” despite required “Date” lines on other certifications of deletion. On the face of
 28 SCL’s April 3, 2017 “certification,” SCL wrote that “this certificate is provided without liability or
 prejudice to me [Nix] personally or to SCL and *cannot be relied upon* to found any action against
 SCL or any related person or entity.” Facebook, Responses to House of Commons, Dig., Culture,
 Media and Sport Comm. to Damian Collins (May 14, 2018) (Confidential Settlement Agreement and
 Mutual Release at 38 of 40). Facebook could not “believe” in this April 3, 2017 date before it even
 existed – *i.e.*, during the 2015-April 2016 period, and did not “believe” it was true in April 3, 2017
 given SCL’s refusal to sign while its affiliate, Cambridge Analytica, and Facebook were both
 making millions of dollars from the Trump campaign in the run up to the 2016 election.

1 Project Alamo. Nix made this point in a video of a presentation that he made on September 27,
2 2016:²⁶⁵

3 The idea that all women should receive the same message because of their gender or
4 all African-Americans because of their race or all old people or rich people or young
5 people to get the same message because of their demographics just doesn't make any
6 sense.

7 Clearly demographics and geographics and economics will influence your
8 world view, but *equally important or probably more important are psychographics*.
9 That is an understanding of your personality, because it's *personality that drives*
10 *behavior and behavior that obviously influences how you vote*.

11 Nix illustrated that Cambridge Analytica would sub-segment its audiences, by personality trait,
12 based upon the OCEAN model:



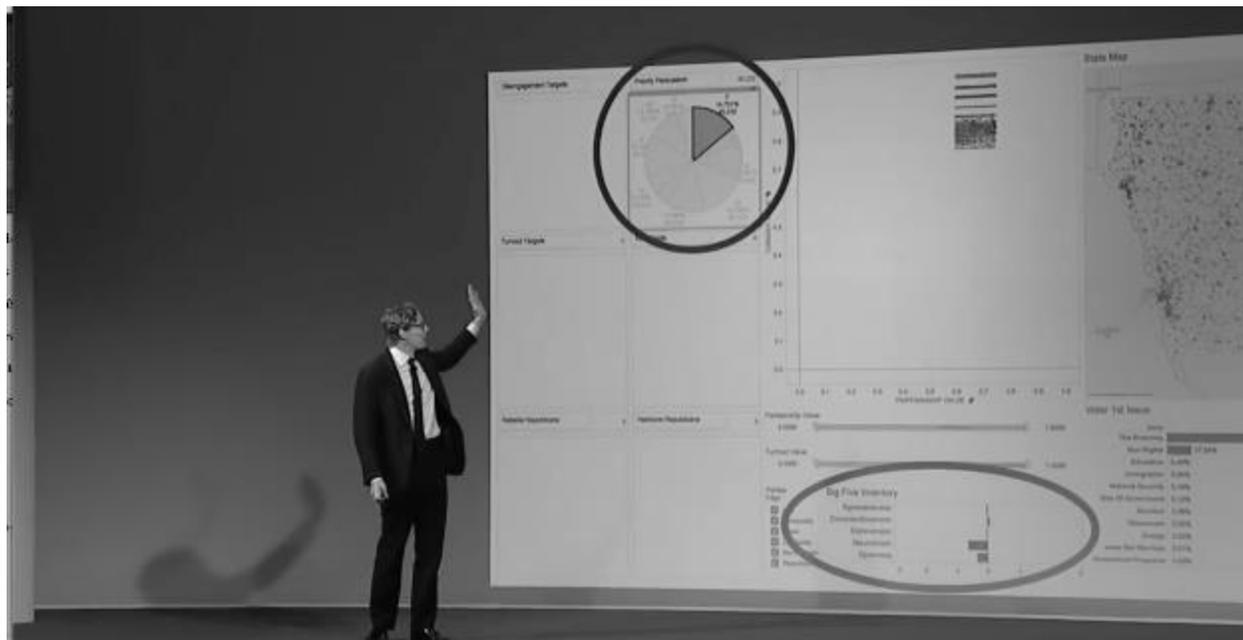
13 On that day, Tuesday, September 27, 2016, Facebook's "embeds" continued working inside of the
14 Cambridge Analytica data center deploying these technologies, as Nix admitted: "I can tell you is
15 that of the two candidates left in this election, one of them *is using* these technologies, and it's going
16 to be very interesting to see how they impact the next seven weeks."²⁶⁶

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26 ²⁶⁵ ECF No. 130-6, Transcription of *Cambridge Analytica – The Power of Big Data & Psychographics*, Concordia Summit (Sept. 27, 2017) ("The Power of Big Data & Psychographics")
27 at 3:16-4:1.

28 ²⁶⁶ The Power of Big Data & Psychographics at 9:14-18.

1 **b. Cambridge Analytica “Is Using” Personality Score**
 2 **Dashboards**

3 252. On September 27, 2016, Nix even provided images of the computer dashboards that
 4 the Facebook embeds would have seen over the course of the months that they supported Project
 5 Alamo:



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17 253. Nix’s September 27, 2016 presentation highlighted (with the circular and oval-shaped
 18 emphases in the original presentation, above) that Cambridge Analytica’s “Priority Persuasion”
 19 targeting methodology was related to its “Big Five Inventory” – the OCEAN scores. These facts are
 20 significant because they corroborate evidence that Cambridge Analytica named its Facebook custom
 21 audiences, while working on the Trump campaign in San Antonio, by personality type for targeting
 22 purposes. The “embeds” witnessed those facts, as did the rest of Facebook’s investigation team
 23 because they saw Nix’s video presentation.

24 **c. Cambridge Analytica “Is Using” the Stolen “Likes”**
 25 **Model**

26 254. Facebook’s investigation team also saw – in Nix’s September 27, 2016 presentation –
 27 a clear picture of Nix admitting that Cambridge Analytica continued to use the OCEAN model, as
 28 Nix explained at the presentation: “at Cambridge, we’ve rolled out a long-form quantitative
 instrument to probe the underlying traits that inform personality. This is the cutting-edge in
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1 experimental psychology known as the OCEAN *model*.”²⁶⁷ Nix presented a large slide to illustrate
 2 the importance of the model:



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11 255. Facebook’s investigation team would have appreciated the importance of this “cutting
 12 edge” OCEAN model, as Nix put it. The “five-factor personality model” was fruit of the poisonous
 13 tree – a derivative of the stolen data that Facebook’s investigation team had ruled a policy
 14 violation.²⁶⁸

15 256. Facebook’s investigation team understood that Cambridge Analytica’s cutting edge
 16 OCEAN model was inspired by the Kosinski’s “likes” paper because Facebook’s in-house research
 17 team surfaced that fact and Kosinski contacted Facebook personally to convey that fact and other
 18 warnings. ¶164. Facebook’s investigation team closed a settlement agreement with Kogan on June
 19 24, 2016, wherein Kogan told Facebook that he had been working with “current and former”
 20 members of Facebook’s research team on the stolen data. ¶¶196-197. Those “current” members
 21 included Kogan’s co-founder of GSR, full-time Facebook employee Chancellor. *Id.*; *see also*
 22 §IV.E.3. Kogan presented his and Chancellor’s findings from the stolen Cambridge Analytica
 23 dataset to Facebook’s research team. §IV.E.3. And Chancellor presented more general findings at

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25 ²⁶⁷ The Power of Big Data & Psychographics at 4:1-6.

26 ²⁶⁸ *See* ¶177 (“You have told us that you received personality score data from Dr. Kogan that was
 27 **derived from** Facebook data, and that those scores were assigned to individuals included in lists that
 28 you maintained. Because that data was improperly **derived from** data obtained from the Facebook
 Platform, and then transferred to Cambridge Analytica in violation of our terms . . .”).

1 an academic conference on September 24, 2015 – a presentation that enticed Facebook to hire
2 Chancellor on November 9, 2015. *Id.*

3 257. Chancellor’s September 24, 2015 academic presentation, which Kogan or Chancellor
4 presented to Facebook, clearly demonstrated to Facebook that Kogan and Chancellor used the
5 purloined “likes” data to replicate Kosinski’s “likes” model for sale to Cambridge Analytica – the
6 *same* model that the CEO of Cambridge Analytica was presenting on September 27, 2016, which
7 Facebook’s investigation reviewed on or about that date.

8 258. Both Chancellor’s “likes” presentation and Kosinski’s “likes” paper rely upon the
9 same performance metrics – area under the curve (AUC) and r-value coefficients.²⁶⁹ Both models
10 use a set of dichotomous and continuous attributes with many of the same attributes showing up in
11 each document. Both Kosinski’s “likes” model and Chancellor’s “likes” model rely upon one single
12 data source – Facebook “likes.” Chancellor’s presentation illustrates that Facebook “likes” were the
13 exclusive input to the process of training, validating, and using the model. These steps require a
14 large volume of “ground truth” data, which Kogan told Facebook they had secured from the Quiz
15 App. §IV.E.3.; §IV.F.3.-4. Responses to the Quiz App reveal actual 5-factor OCEAN scores based
16 upon survey responses, and the Facebook “likes” from those survey respondents were used to train
17 and validated the models. Quantitatively, the model that Chancellor presented bore striking
18 similarities with the model in Kosinski’s paper.²⁷⁰ The Facebook “likes” model that Kogan and
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20 ²⁶⁹ The AUC (“Area Under Curve”) metric addresses dichotomous variables that only have two
21 outcomes (like a coin toss). In the case of a model, if it is presented with Facebook “likes”
22 associated with one random male and one random female, the model will correctly classify these two
23 individuals 93% of the time. A value of AUC that equals 0.5 means the model is no better than a
24 random guess, and a value of AUC that equals 1.0 means the model makes perfect predictions. By
25 contrast, r-values test variables where outcomes can fall on a range. The figure is also a
measurement of model accuracy for continuous variables: r-values can measure the strength of the
relationship between the model’s estimate and the test result. A value of r that equals 0 indicates that
the model has no predictive value of the test results. A value where r equals 1 indicates that there is
a perfect linear relationship between the model’s result and the test result.

26 ²⁷⁰ For example, the AUC metric for the “gender” dichotomous variable in the Chancellor
27 presentation was approximately 0.92; in the Kosinski paper, it was 0.93. Both also tested whether a
28 person was African American or Caucasian; Kosinski’s AUC was 0.95, and Chancellor’s
presentation (*i.e.*, of the model he and Kogan sold to Cambridge Analytica via SCL) was 0.84. As
another example, r-value for the “conscientiousness” continuous variable in the Chancellor
presentation was approximately 0.32; in the Kosinski paper, it was 0.29. These and other modeling

1 Chancellor built for Aleksandr Nix *was* the Kosinski model, as Facebook knew by talking to Kogan
2 and Chancellor about the model, before hiring Chancellor to help Facebook apply the model
3 internally, in November 2015.

4 259. Critically, Facebook had previously attempted to pressure Kosinski into teaching
5 Facebook how to replicate his published “likes” model: “On the day that Kosinski published these
6 findings [in his “likes” paper], he received two phone calls. The threat of a lawsuit *and* a job offer.
7 Both from Facebook.”²⁷¹

8 260. The fact that Facebook threatened Kosinski with a lawsuit and job offer with regard
9 to his “likes” model further reveals Facebook’s knowledge as to Cambridge Analytica’s “likes”
10 model. The lawsuit demonstrates that creating derivative products from lawfully-obtained “likes”
11 data violated Facebook’s stated policies. The job offer shows Facebook believed the “likes” model
12 was so commercially valuable that it wanted to hire Kosinski full-time to teach Facebook how to
13 replicate it – and that’s exactly what they got from Chancellor, as Facebook’s investigation
14 discovered. Facebook’s investigation team knew all these facts because of their access to Chancellor
15 (as employee); Kosinski (as a volunteer); Kogan (as a cooperating witness); and Facebook’s in-
16 house research staff who were part of the investigation team, and connected the Kosinski-likes-
17 OCEAN model dots for the rest of the team.

18 **d. Cambridge Analytica “Is Using” the Stolen “Likes”**
19 **Data**

20 261. Facebook and Cambridge Analytica also collaborated on the \$85 million worth of ads
21 – the images, sounds, colors – that Facebook sold to Cambridge Analytica in Project Alamo. “And
22 in at least one instance, Facebook employees wrote potential Trump campaign ads, according to a

23 results show that Kogan and Chancellor closely replicated Kosinski’s Facebook “likes” model,
which, as Facebook knew, was one of the key reasons Cambridge Analytica hired them.

24 ²⁷¹ Hannes Grassegger and Mikael Krogerus, *The Data That Turned the World Upside Down*,
25 *Stanford University* (Jan. 28, 2017) at 5 (“The strength of their modeling was illustrated by how well
26 it could predict a subject’s answers. Kosinski continued to work on the models incessantly: before
27 long, he was able to evaluate a person better than the average work colleague, merely on the basis of
28 ten Facebook ‘likes.’ Seventy ‘likes’ were enough to outdo what a person’s friends knew, 150 what
their parents knew, and 300 “likes” what their partner knew. More ‘likes’ could even surpass what a
person thought they knew about themselves. On the day that Kosinski published these findings, he
received two phone calls. The threat of a lawsuit and a job offer. Both from Facebook.”)

1 person familiar with the matter and records reviewed by *The Wall Street Journal*.²⁷² This creation
 2 of advertisements inside Project Alamo depended upon the OCEAN data, as Nix admitted that their
 3 ads “need[ed] to be nuanced according to the certain personality that we’re interested in.”²⁷³ “Pretty
 4 much every message that Trump put out was data-driven,” Nix explained.²⁷⁴ Nix said that “[w]e
 5 did all the research, all the data, all the analytics, all the targeting, we ran all the digital campaign,
 6 the television campaign, and our data informed all the strategy.”²⁷⁵ A Nix colleague said about their
 7 Trump ads: “We just put information into the bloodstream [of] the internet and then . . . watch[ed] it
 8 grow.”²⁷⁶

9 262. Facebook was still investigating Cambridge Analytica at the time that he made his
 10 presentation on September 27, 2016.

11 263. Facebook’s Cambridge Analytica team watched the video and circulated it internally.
 12 “Employees responsible for coordinating Facebook’s response to the Guardian article also circulated
 13 a link to a video of a marketing presentation by Cambridge’s chief executive officer about the firm’s
 14 ability to target voters based on personality.”²⁷⁷ That team watched Nix refer to the way that
 15 Cambridge Analytica built the OCEAN model: “By having hundreds and *hundreds of thousands*
 16 Americans undertake this *survey*, we were able to perform a model to predict the personality of
 17 every single adult in the United States of America.”²⁷⁸ Facebook investigation team knew that the
 18 Quiz App *was* a survey that 250-270 hundred thousand Americans installed, as Facebook knew
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20 _____
 21 ²⁷² Emily Glazer & Jeff Howitz, *Facebook Curbs Incentives to Sell Political Ads Ahead of 2020*
Election, Wall St. J. (May 23, 2019).

22 ²⁷³ The Power of Big Data & Psychographics at 7:13-15.

23 ²⁷⁴ Hannes Grassegger & Mickael Krogerus, *The Data That Turned the World Upside Down*,
 24 Motherboard (Jan. 28, 2017).

25 ²⁷⁵ *Exposed: Undercover secrets of Trump’s data firm*, Channel 4 News (Mar. 20, 2018).

26 ²⁷⁶ *Cambridge Analytica executives: We invented ‘Crooked Hillary’ campaign*, The New Daily
 27 Australia (Mar. 21, 2018).

28 ²⁷⁷ SEC Complaint at ¶35.

²⁷⁸ The Power of Big Data & Psychographics at 4:14-18.

1 because that app was a Facebook app, with an App ID number and download history that the
2 investigation team reviewed. ¶¶170-173.

3 264. Facebook’s investigation team also necessarily would have viewed Nix’s September
4 27, 2016 presentation in light of his prior admissions to Facebook that Cambridge Analytica derived
5 political predications from a host of publicly available information but derived its “*psychographic*
6 *scoring*” from *one* source – GSR:²⁷⁹

7 <http://fortune.com/2015/12/11/led-cruz-facebook-data/>

This article suggests that we model from Facebook likes. In actuality, the data we use for making political predictions is based on the voter file (public record) enriched with consumer and lifestyle data that we have licensed from Axciom, Infogroup, Aristotle, L2 and the RNC DataTrust. The article also suggests that we have collected information from Facebook without users permission. This is incorrect; we haven't taken data from Facebook, and Cambridge Analytica has never collected primary data without individual consent.

8 <http://gizmodo.com/led-cruz-might-have-your-facebook-data-dependino-on-ho-1747523800>

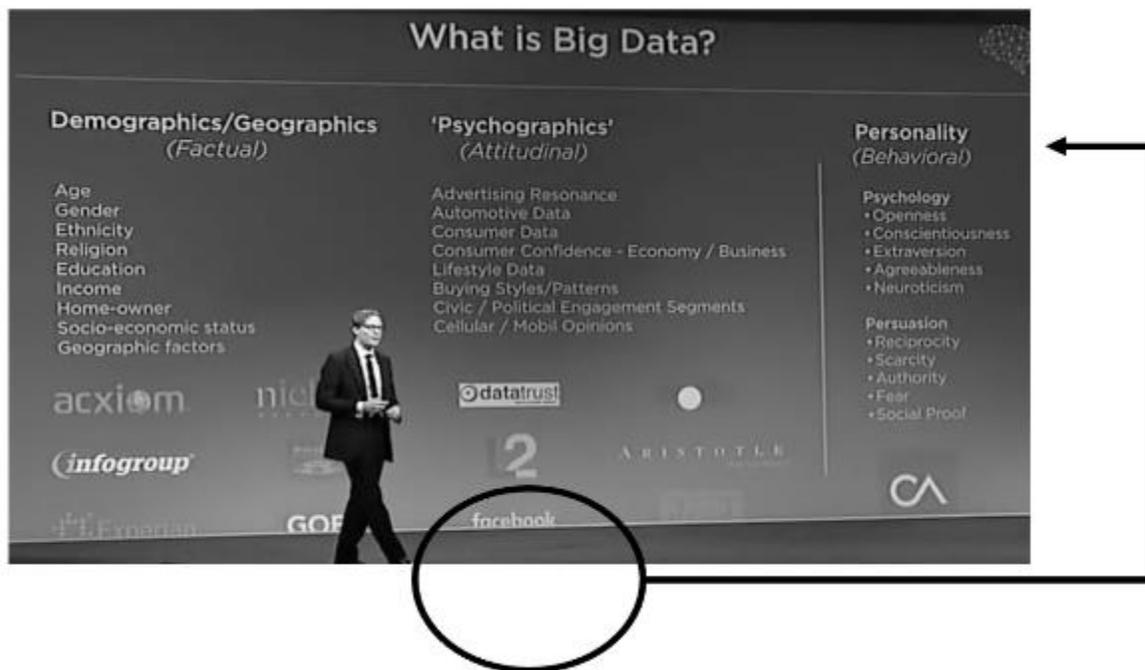
This article states that Cambridge Analytica paid people \$1 to allow us to access their Facebook profile. This is untrue; we have not directly engaged with people over Facebook except through paid advertising. Rather, we subcontracted the research phase of the psychographic data project to GSR, who provided us with an append to our voter file containing the psychographic scoring.

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10 The investigators immediately understood this written confirmation and provided its own written
11 confirmation to Cambridge Analytica that the psychographic scores were inappropriate. See ¶177.
12 (“You have told us that you received personality score data from Dr. Kogan that was derived from
13 Facebook data, and that those scores were assigned to individuals included in lists that you
14 maintained . . . in violation of our terms.”).

15 265. Facebook’s investigation team did review Nix’s September 27, 2016 presentation
16 with those facts in mind and therefore understood that Facebook data alone – and none of the other
17 data for sale on the market – were the key input to Cambridge Analytica’s personality scores.
18 Facebook still was using this £750,000’s worth of Facebook “Big Data”:

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26 ²⁷⁹ Allan Smith, *Leaked email shows how Cambridge Analytica and Facebook first responded to*
27 *what became a huge data scandal*, Business Insider (Mar. 22, 2018) (Cambridge Analytica’s
28 emailed responses to Facebook, responding to questions that Facebook investigation teammate
Hendrix sent to Cambridge Analytica via email on December 12, 2015).

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266. Yet again, Facebook’s investigation team caught Nix continuing to violate Facebook’s publicly stated policies as, Nix admitted that one of the presidential candidates “*is using* [Cambridge Analytica’s] technologies,” referring to then-candidate Trump.²⁸⁰ Facebook’s investigation amassed even more evidence that Cambridge Analytica continue to violate Facebook’s stated policies on October 27, 2016.

2. Facebook’s Investigation Team Reviews Nix’s Statements to *The Washington Post* that Cambridge Analytica’s Psychographics Rely on Facebook “Likes,” Knowing Nix Spent One Year and £750,000 Harvesting Approximately 17.1 Billion “Likes” with GSR and Then Lied About It

267. On October 27, 2016, while Cambridge Analytica was still under investigation by Facebook, Cambridge Analytica shared the following information on social media:

²⁸⁰ The Power of Big Data & Psychographics at 9:14-18.



Cambridge Analytica @CamAnalytica · Oct 27, 2016

Great article by @PostKranish about how #psychographics are being incorporated into #political campaigns



Trump's plan for a comeback includes building a 'psychographic' prof...
The Republican presidential nominee is paying millions of dollars to a firm promising a new way to target supporters.
[washingtonpost.com](https://www.washingtonpost.com)

15 268. Facebook's investigation team picked up on *The Washington Post* article that Nix
16 shared and endorsed on social media. "Facebook lawyers and employees in the company's political
17 advertising group saw and discussed an October 27, 2016, article in *The Washington Post* reporting
18 that Cambridge combined psychological tests with 'likes' on 'social-media sites.'"²⁸¹ The political
19 advertising employees were among the many Facebook employees involved in Facebook's
20 investigation into Cambridge Analytica.²⁸² Ample facts show Kaplan (a lawyer, political advisor

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22 ²⁸¹ SEC Complaint at ¶35.

23 ²⁸² Facebook's political advertising activities were among Harbath's responsibilities in the policy
24 group – *i.e.*, the political team was part of "policy." *See, e.g.*, Somini Sengupta, *Facebook Builds*
25 *Network of Friends in Washington*, *The New York Times* (May 19, 2012) at 1 ("Patrick Bell, an aide
26 to Representative Cathy McMorris Rodgers, Republican from Washington, recalled a meeting last
27 fall where a onetime Republican aide, **Katie Harbath, counseled** a room full of Republican
28 lawmakers on how to use the site to communicate with voters. 'We had a Republican from
Facebook talking to Republicans. They love that,' he said."); Kyle Trygstad, *Online Political*
Advertising Gets Personal, *Roll Call* (Sept. 20, 2012) at 2 ("That's led companies including
[Facebook] to hire strategists from the political world **to help with outreach to potential advertisers**
... Facebook brought on Katie Harbath, the former chief digital strategist at the National
Republican Senatorial Committee"); Anna Brand, *The women bridging tech and politics in the 2016*
election, *MSNBC.com* (June 23, 2015) at 2 ("Katie Harbath: My team helps candidates, political
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1 and lobbyist overseeing Harbath in the political advertising group) and Harbath (a businessperson
 2 running the small political adds group, including the Trump-Cambridge Analytica “embeds”) were
 3 among the “lawyers and employees” who saw and discussed *The Washington Post*’s October 27,
 4 2016 article. The same is true of Sandberg (who had a dotted-line reporting relationship with Kaplan
 5 on political matters) and Schrage (who was Kaplan’s direct manager); each of Sandberg and Schrage
 6 also received media “flags” as a matter of standard operating procedure at Facebook (§162 n.159);
 7 political news involving Facebook, however, was particularly important to Sandberg.²⁸³ Moreover,
 8 Zuckerberg and Sandberg instructed Kaplan and Harbath to help the Trump campaign in May 2016
 9 (Kaplan and Harbath, in turn, helped convince Zuckerberg and Sandberg to personally court the
 10 Trump campaign); thus, it would be absurd to suggest that Kaplan and Harbath failed to apprise
 11 Zuckerberg and Sandberg of the facts reported by *The Washington Post* on October 27, 2016,
 12 particularly in light of the other facts uncovered by Facebook’s ongoing investigation into
 13 Cambridge Analytica, such as its affiliate’s continuing refusal to sign a written certification of data
 14 destruction and Cambridge Analytica’s fraudulent certification, which Facebook uncovered on June
 15 11, 2016. Zuckerberg, Sandberg, Kaplan and Harbath all knew about Facebook’s own investigation
 16 into Cambridge Analytica.

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 18 parties, elected officials and governments around the globe use Facebook effectively to engage with
 19 people in those countries. The Politics and Government Outreach team has grown from three *to*
 20 *seven in the last two years*. We are globally focused and *have worked extensively*, for example, on
 21 elections in *the UK* this year, as well as the [mid-term] 2014 elections in . . . *the U.S.*”). A detailed
 22 study of Facebook political employees’ social media found just four Facebook employees working
 23 on political advertising for the Republican team were Harbath, Barnes, “FB1” and another Facebook
 24 employee. *Partisan Programming: How Facebook and Google’s Campaign Embeds Benefit Their*
 25 *Bottom Lines*, Campaign for Accountability, Google Transparency Project (Aug. 2018). Harbath
 26 shared on social media: “[I] [a]m working in the Facebook DC office *leading the team* helping
 27 elected officials, politicians and governments around the world use Facebook to communicate with
 28 constituents/voters.” Appendix A: Google Elections and Politics Employees.

24 ²⁸³ For example, on July 27, 2016, Sandberg participated in a conference call with investors. Q2
 25 2016 Facebook, Inc Earnings Call Tr. at 12 (July 27, 2016). On that that call, one participant asked
 26 Sandberg about political spending and Sandberg responded in relevant part: “*While the political*
 27 *campaign, obviously a lot of money is spent in ads. That’s also true of an Olympics. It’s also true*
 28 *of a World Cup. It’s also true of a Superbowl*. With all of these events taking place around the
 world, there’s no one event that we think drives a huge portion of revenue. *That said, we are*
pleased by what’s happened on Facebook for the election cycle. Not just on the paid side *but*
actually on the organic side as well.”).

1 269. *The Washington Post's* October 27, 2016 article, titled: “Trump’s plan for a
 2 comeback,” includes building a ‘psychographic’ profile of every voter,” informed Facebook’s
 3 investigation of a number of important facts. The article was based on an interview of Nix, and
 4 reported these facts about Cambridge Analytica’s psychographics: “The psychological tests are
 5 combined with a collection of data, such as a person’s taste in movies, music, books, restaurants, **and**
 6 **the ‘likes’ or ‘hearts’ on social media sites.**”²⁸⁴*The Washington Post's* article quoted from (and
 7 provided a hyperlink to) Nix’s September 27, 2016 presentation at the Concordia Annual Summit
 8 discussed above.

9 270. All of this information had special significance to Facebook’s Cambridge Analytica
 10 investigation team, on account of the below facts that GSR and Kogan had formally certified to
 11 Facebook:²⁸⁵

Name	Contact Information	Number of unique Facebook Profiles Involved, and Specific Data Points Shared
SCL	Alexander Ashburner Nix <div style="background-color: black; width: 150px; height: 15px; margin-top: 5px;"></div>	Approximately 30 million people. Shared forecasted survey responses (derived from page likes) and some limited profile data (such as name, location, birthday, and whether an individual had liked any of a limited list of specific Facebook pages)

26 ²⁸⁴ Michael Kranish, *Trump’s plan for a comeback includes building a ‘psychographic’ profile of every voter*, Wash. Post (Oct. 27, 2016).

27 ²⁸⁵ Stimson Letter at 28 of 40 (June 11, 2016 Certs. and June 24, 2016 Settlement Agr. attachments)
 28 (showing “6/11/2016” execution dates).

1 **3. Facebook Learns About Cambridge Analytica’s Voter**
2 **Suppression Campaign Based on the Misappropriated**
3 **Psychographics**

4 271. On the same day that Facebook’s investigation team saw and discussed the October
5 27, 2016 article from *The Washington Post*, *Bloomberg* published an article about how the Trump
6 campaign was following a voter suppression strategy.²⁸⁶ *Bloomberg’s* report, “Inside the Trump
7 Bunker, With Days to Go,” reported that “Trump’s data scientists, including some from the London
8 firm Cambridge Analytica who worked on the ‘Leave’ side of the Brexit initiative, think they’ve
9 identified a small, fluctuating group of people who are reluctant to admit their support for Trump and
10 may be throwing off public polls.” Yet, as *Bloomberg* reported, “Trump’s reality is plain: He needs
11 a miracle.” Thus, as *Bloomberg* reported, a Trump campaign official said: “***We have three major***
12 ***voter suppression operations under way,***” and then *Bloomberg* noted that suppression operations
13 are “aimed at three groups Clinton needs to win overwhelmingly: idealistic white liberals, young
14 women, and African Americans.” This was the campaign that Facebook was monetizing and
15 supporting with the Facebook embeds in San Antonio.

16 272. The actual advertisements (so-called “dark ads” or “dark posts”) that Facebook
17 delivered to Cambridge Analytica’s suppression targets on behalf of the Trump campaign – with one
18 exception about Hillary Clinton allegedly believing African American youths are “super predators” –
19 have not been disclosed by Facebook. But the Trump campaign’s dark posts enjoyed special
20 treatment inside of Facebook, as *The Wall Street Journal* reported on October 21, 2016: VP “Kaplan
21 defended an internal whitelist maintained by Facebook to protect certain high-profile accounts,
22 including President Trump’s”²⁸⁷ account along with other major media outlets’ accounts. The
23 internal whitelists flagged controversial content for additional review, so that Facebook did not
24 prevent the content’s publication without further review.

25 _____
26 ²⁸⁶ Joshua Green & Sasha Issenberg, *Inside the Trump Bunker, with Days to Go*, *Bloomberg* (Oct.
27 27, 2016).

28 ²⁸⁷ Deepa Seetharaman, *Facebook’s Lonely Conservative Takes on a Power Position*, *Wall St. J.*
(Dec. 23, 2018).

1 273. Sensitive content subjects like Trump’s reported voter suppression campaign – and
2 related custom audiences and “dark posts” – rose quickly to the appropriate personnel at Facebook
3 on October 27, 2017. *Reuters* reported on that day: “an elite group of at least five senior executives
4 regularly directs content policy and makes editorial judgment calls, particularly in high-profile
5 controversies, eight current and former Facebook executives told *Reuters*.”²⁸⁸ The voter suppression
6 campaign reported by *Bloomberg* meets that description. “The current and former Facebook
7 executives, most of them speaking on condition of anonymity, told *Reuters* in detail how complaints
8 move through the company’s content-policing apparatus. The toughest calls, they said, rise to an
9 elite group of executives.” “In addition to *Sandberg* [and two others], executives involved in
10 sensitive content issues include Joel *Kaplan*, Facebook’s Washington-based government relations
11 chief; and Elliot *Schrage*, the vice president for public policy and communications.”²⁸⁹ These facts
12 relating to Facebook’s internal procedures show that Sandberg, Kaplan and Schrage would have
13 been aware of the *Bloomberg* voter suppression report and would have been briefed on the fact that
14 Facebook had its own personnel “embedded” inside the Trump campaign while that conduct was
15 ongoing and, in fact, supported the conduct as set forth above with precision as to the exact manner
16 of support.

17 274. Reports about Cambridge Analytica’s voter suppression campaign followed just a
18 month after Nix’s Concordia presentation. There, he displayed how the company’s advertisements
19 were informed by the policy-violating “psychographics”:
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26 ²⁸⁸ Kristina Cooke, Dan Levine, & Dustin Volz, *Facebook executives feel the heat of content*
27 *controversies*, *Reuters* (Oct. 27, 2016).

28 ²⁸⁹ *Id.*



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275. Here, Nix states in a video – which Facebook’s investigation team reviewed several times (*e.g.*, ¶¶294, 298) – that his “psychographics” inform both the content of all of Cambridge Analytica’s ads, and its targets, as in the case of the person that the stolen data and models identified by name, by psychographic trait (high neuroticism) and targeted with an ad designed to shock someone who possessed that personality trait. Nix said in the above video that one the presidential campaigns was “using” the methodologies that he just discussed. ¶251. Based on these facts, it follows that Cambridge Analytica continued to run Facebook ads that violated Facebook’s *stated* policies because they were derived from the stolen data. This inference strengthens when viewed in light of the fact that Facebook’s political team “whitelisted” content from the Trump campaign and the fact that Facebook helped Cambridge Analytica suppress voter turnout from protected classes in the 2016 election, as demonstrated above.

1 276. Unfortunately, because Facebook largely sold “dark posts” to Cambridge Analytica to
 2 support its voter suppression campaign, it is not possible to provide examples of those ads. Many
 3 have asked Facebook to disclose examples, but it refuses to do so, for obvious reasons.²⁹⁰

4 **J. Zuckerberg, Sandberg and Rose Discuss Voter Suppression and**
 5 **Cambridge Analytica with Roger McNamee over the October 2016-**
 6 **2017 Period**

7 **1. McNamee Approaches Zuckerberg and Sandberg Before the**
 8 **2016 Election**

9 277. On October 30, 2016, McNamee – an early Facebook investor and business mentor to
 10 Zuckerberg and Sandberg – called them to express concerns about Facebook’s role in political
 11 contests and other areas. Brexit was one of the issues that concerned McNamee, as he explained in
 12 an interview:²⁹¹

13 Fast forward to June [2016], Brexit, the British voting on whether or not to
 14 leave the European union. The final polls say that they’re going to remain, and
 15 remain’s going to win by 4 points. That night out comes the election returns, and
 16 leave has won by 4 points. So 8 points. And in the postmortems there was a lot of
 17 talk about the role Facebook had played. And what was interesting was nobody was
 18 blaming Facebook.

19 But if you were in my position looking at this thing, you’re going, whoa,
 20 leave had a really inflammatory campaign, right? They’re basically saying those evil
 21 immigrants are going to destroy your culture, take away your jobs, and they’re
 22 ruining the country and all the crime is blamed on them. And then they were
 23 offering this pie-in-the-sky thing of, hey, we’re going to save billions of dollars – or
 24 billions of pounds on exiting the EU, we’re going to take all that money and pour it
 25 into the national health system. So effectively they were saying to everybody, you
 26 can vote because of some racially motivated animus, but you can feel good about it
 27 because you’re going to save the national health system.

28 * * *

29 ²⁹⁰ See, e.g., McKenzie Funk, *Cambridge Analytica and the Secret Agenda of a Facebook Quiz*,
 30 N.Y. Times (Nov. 19, 2016) (Reporting: “In this election, [Facebook’s] dark posts were used to try
 31 to suppress the African-American vote.”).

32 ²⁹¹ McNamee is a highly regarded venture capitalist in Silicon Valley who had extensive ties to
 33 Zuckberg and Sandberg: McNamee encouraged Zuckerberg not to sell the company in its early days,
 34 and mentored Zuckerberg about developing Facebook in those early days; McNamee understood that
 35 Zuckerberg would benefit from additional business support and personally introduced him to
 36 Sandberg; McNamee invested in Facebook; McNamee was friends with other Facebook senior
 37 executives; in short, McNamee considered Facebook one of the most important investments that he
 38 had made in a successful career, explaining at an interview that “I felt like this truly was my baby.”
 Transcription, *From Mentor to Activist: Facebook Through the Eyes of Roger McNamee*, Real
 Vision Finance, YouTube (Apr. 13, 2019) at 15:24-15, 17:10-18:6, 18:14-18.

1 Meanwhile, the remain side has no emotion in it at all. They're basically
2 going, we have the sweetest deal on earth. We get all the benefits of EU membership
3 and we get to keep our own currency; that's a great deal, don't screw it up. Should
4 have won in a walk. I mean, the British are – I mean stay the course is the British
5 way. And yet the thing swings 8 points.

6 And I'm thinking to myself, is Facebook giving an advantage to
7 inflammatory political campaigns over neutral ones? ***That was the hypothesis that***
8 ***Brexit brought me to.***

9 278. These and other Facebook-related issues prompted McNamee to consider writing an
10 op-ed that was critical of Facebook; but, rather than going the press, he first sought to work with his
11 mentees, Zuckerberg and Sandberg, privately. He contacted them on October 30, 2016. "And they
12 get right back to me, ***I mean within hours,***" McNamee explained:²⁹²

13 And they said, but, you know, ***we take you seriously,*** you know, you've been
14 a friend of ours for a long time, so we're going to have one of our senior people work
15 really closely with you to figure out if there's something we should be investigating.
16 And they turned me over to ***Dan Rose.***

17 Now, Dan I think is the second-longest serving executive at Facebook and
18 he's somebody I knew really well, respected a lot, and liked very much. And Dan
19 gives me the same basic shtick the next day, but with one important added note. He
20 goes, Roger, you know, we're a platform, we're not a media company, so as such
21 we're not responsible for what third parties do on the platform. ***And we go back and***
22 ***forth roughly once a day up until right before the election.***

23 Then the election happens, and I'm apoplectic. At this point I go, okay, guys,
24 I'm sorry, you have played a role here. We don't know exactly what the role is, but
25 the platform has been used. It's been used in Brexit, it's been used in the U.S.
26 election.

27 And Dan's going, no, no, no, you don't understand, we're a platform, we're
28 not a media company, we're not responsible.

29 279. McNamee's discussions with Rose, Zuckerberg and Sandberg continued from
30 October 30, 2016 through February 2017 – approximately four months. "And so, I'm sitting there
31 thinking to myself, I mean, Trump won because of really ***spectacularly well-executed voter***
32 ***suppression,*** and Facebook played a role" – McNamee recalled – "So I wouldn't let go. . . . And I
33 think I got up to maybe 15 or 16 different examples of situations where they had contributed to bad
34 actors, you know, harming innocent people."

35 _____
36 ²⁹² *Id.* at 24:1-23.

1 **2. McNamee’s Discussions with Zuckerberg, Sandberg and Rose**
 2 **Reveal that “Senior Management Knew” Facebook Had**
 3 **Embedded Three Employees Inside the Cambridge Analytica**
 4 **War Room**

5 280. Cambridge Analytica was one such “bad actor” that McNamee discussed with Rose,
 6 Zuckerberg and Sandberg; in fact, Cambridge Analytica repeatedly surfaced in the news over the
 7 October 27, 2016 – February 2017 period. The *Bloomberg* and *Washington Post* October 27, 2016
 8 articles (¶¶248, 267-680) and numerous other articles related directly to McNamee’s “voter
 9 suppression” concerns.²⁹³ On November 8, 2016, Cambridge Analytica’s top data scientist, who was
 10 in the same war room as the Facebook embeds, shared a number of social media posts corroborating
 11 McNamee’s concerns and further supporting the conclusion that the voter suppression campaign was
 12 no secret inside of Project Alamo.²⁹⁴ Matt Oczkowski and the rest of the team were able to figure
 13 out voter statistics by race in real time because, as his data partner at Project Alamo (Molly
 14 Schweikert) would later admit, they used Facebook user identification data to pull reports on voters
 15 as they turned in ballots. ¶233 n.238.

16 281. During the October 2016-February 2017 period, McNamee learned that Facebook’s
 17 “senior management knew” they had employees embedded in the Trump campaign working on the
 18 dataset that Cambridge Analytica had misappropriated:

19 McNamee: In roughly June 2016, “they embed three employees in the Trump
 20 campaign working in a war room in the San Antonio data office of Trump working
 21 side by side with Cambridge Analytica people on this gigantic dataset that was
 22 obviously *the same one that had been misappropriated by Cambridge Analytica*
 23 two years earlier.”

24 “And here’s the thing: *The top management of Facebook knew* they had
 25 employees embedded in the campaign, *everybody knew* that Cambridge Analytica

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 27 ²⁹³ See, e.g., McKenzie Funk, *Cambridge Analytica and the Secret Agenda of a Facebook Quiz*,
 28 *N.Y. Times* (Nov. 19, 2016) (Reporting: “In this election, [Facebook] dark posts were used to try to
 suppress the African-American vote.”).

29 ²⁹⁴ On November 8, 2016, Cambridge Analytica’s lead data scientist inside Project Alamo posted to
 his Twitter account: (1) “Lower African American turnout, coupled with not enough Hispanic
 turnout to make up the difference, and an increase in rural voters = win”; (2) “In states like Florida
 and North Carolina Hispanics did not break enough towards Clinton (not anti-trump enough) to
 make up the difference”; and (3) “States like Iowa, Wisconsin, Michigan, and Indiana all benefited
 from this boost. Some will call like ‘brexit-like.’”

1 was working for Trump, and there *wasn't enough time* between December [2015]
2 and June [2016] to recreate that dataset.”²⁹⁵

3 282. McNamee did, in fact, have personal knowledge of what “top management of
4 Facebook knew” regarding Cambridge Analytica’s misuse of stolen data because McNamee
5 personally spoke with Zuckerberg, Sandberg and Rose about that subject and others from October
6 30, 2016 through February 2017.

7 **3. Unbeknownst to McNamee, Cambridge Analytica Benefited**
8 **from Zuckerberg’s and Sandberg’s Selective Policy**
9 **Enforcement Model that Rose Helped Set Up**

10 283. Zuckerberg’s and Sandberg’s decision to appoint Rose as their representative in their
11 dealings with McNamee bears upon scienter. *First*, Rose ran the team that rejected and overrode the
12 rejection of the GSR Quiz App; and the team that subsequently “whitelisted” the Quiz App.
13 §IV.D.4.-8. Rose also helped put Zuckerberg and Sandberg’s “whitelisting” (selective policy
14 enforcement) business model into action.²⁹⁶ *Second*, there is evidence that, in carrying out
15 Zuckerberg’s selective enforcement vision, Rose worked with other senior executives at Facebook to
16 move the policy enforcement reporting line away from General Counsel Colin Stretch (“Stretch”)

17 ²⁹⁵ Transcription, *From Mentor to Activist: Facebook Through the Eyes of Roger McNamee*, Real
18 Vision Finance, YouTube (Apr. 13, 2019) at 30:4-15.

19 ²⁹⁶ See, e.g., Six4Three Documents, Ex. 159 at FB-01368452 (August 15, 2012 Facebook email
20 from Rose about a presentation point “Develop partnerships with value-added 3rd-party services to
21 supply data in exchange for revenue-share and/or equity” in response to an email string noting “Dan,
22 I left Sheryl off this on the assumption that you will share with her tomorrow at your 1:1”);
23 Six4Three Documents, Ex. 41 at FB-01369065 (November 8, 2012 Facebook email among Rose,
24 Justin Osofsky and others (attaching powerpoint) (noting “friend” data in top category of
25 information downloaded by developers); Six4Three Documents, Ex. 41 at FB-01369070 (ranking the
26 “PR risk” associated with various data monetization approaches); Six4Three Documents, Ex. 41 at
27 FB-01369072 (“siz[ing] the FB revenue opportunity” associated with charging five developers
28 “access to our friends API”); Six4Three Documents, Ex. 41 at FB-01369086 (quantifying the
number of times that 30 app developers pull “friend” data at 1,328,800,000 per week)); Six4Three
Documents, Ex. 46 at FB-00948764-8765 (November 16, 2012 Facebook email/message among
Zuckerberg, Vernal, Rose and others) (regarding the “PBM” (Platform Business Model) that “comes
down” to three choices including “paid friends [data], categorical [data] reciprocity for all, total
[data] reciprocity for big guys/competitors” and noting, to Zuckerberg, “the ball is in your court on
this one”); Six4Three Documents, Ex. 64 at FB-00948264 (November 12, 2012 Facebook email
amongst Zuckerberg, Sandberg, Rose, Justin Osofsky and others discussing “premium
read/engagement” and discussing all the changes as “Platform 3.0” as they “really represent[] a
substantial relaunch of platform”).

1 and into the business teams.²⁹⁷ **Third**, Rose understood the purpose of Zuckerberg and Sandberg’s
 2 selective policy enforcement was to make money or extract value from third parties who were
 3 violating Facebook’s stated policies, provided those third parties drove “sharing” or user engagement
 4 on Facebook.²⁹⁸ Zuckerberg long tied enforcement of all policies to business factors; he wrote: “in
 5 any model, I’m assuming we enforce our policies against competitors much more strongly.”

6 284. Zuckerberg and Sandberg’s selective policy enforcement business model had a
 7 \$250,000 threshold. Third parties who violated policies but drove value back to Facebook in excess
 8 of that threshold enjoyed two policy enforcement options – no enforcement, or slow enforcement.²⁹⁹

9
 10 ²⁹⁷ For example, one of Rose’s business colleagues (Justin Osofsky) (*Facebook VP of Global*
 11 *Operations and Media Partnerships Kurt Wagner & Rani Molla, Mark Zuckerberg’s birthday photo*
 12 *shows the 20 Facebookers you should know not named Mark Zuckerberg*, Vox (May 16, 2017))
 13 wrote to Rose: “I’m also working with Colin [Stretch] to develop a more proactive and strategic
 14 approach to enforcement in competitive **and other key contexts**.” Six4Three Documents, Ex. 50 at
 15 FB-01368116. Rose then reported to his team that “Monika Bickert” was “moving **from** Colin
 16 Stretch’s [legal] team over **to** Justin’s [Osofsky’s business] org **to lead** global policy enforcement.”
 17 Six4Three Documents, Ex. 51 at FB-01370736; *see also* Six4Three Documents, Ex. 73 at FB-
 00061223 (Facebook internal email among Hendrix and others regarding “Proactive and Reactive
 removal of permissions” to access data via Facebook’s API, and stating: “We **enforce** I.10 **sparingly**,
 often only after extensive consultation with Justin [Osofsky] on a case-by-case basis”). Monika
 Bickert ran “Developer Policy Enforcement” from 2013-20 (Monika Bickert, LinkedIn) – the
 business unit involved directly in the recidivist misconduct leading to the FTC’s \$5 billion
 punishment of Facebook. “Developer Policy Enforcement” is listed as one of the teams involved in
 the Cambridge Analytica investigation.

18 ²⁹⁸ *See, e.g.*, Six4Three Documents, Ex. 51 at FB-01370735 (“Mark’s [Zuckerberg’s] insight about
 19 the purpose of our platform is important for people to internalize: [quoting Zuckerberg]: ‘There’s a
 20 clear tension between platform ubiquity and charging, so it’s important to first fully explore what
 21 we’re trying to get out of platform. The answer I came to is that we’re trying to enable people to
 22 share everything they want, and to do it on Facebook. Sometimes the best way to enable people to
 23 share something is to have a developer build a special purpose app or network for that type of
 24 content and to make that app social by having Facebook plug into it. However, that **may be good for**
the world but it’s not good for us unless people also share back to Facebook and that content
 increases the value of our network. So ultimately, I think **the purpose of platform** – even the read
 side – **is to increase sharing back into Facebook**.’ This insight leads to the reciprocity requirement
 where developers who pull data from FB must allow those people to push data from the app back to
 FB.”).

25 ²⁹⁹ As the FTC found after an investigation based upon a review of internal Facebook documents
 26 and interviews of Facebook witnesses: “Facebook relied on administering consequences for policy
 27 violations that came to its attention after third-party developers had already received the data,” but
 28 that “the severity of consequences that Facebook administered to third-party developers for violating
 the company’s Platform Policies, **and the speed** with which such measures were effectuated, took
 into account the financial benefit that Facebook considered the developer to offer to Facebook.” FTC
 Complaint at ¶123. “As internal Facebook documents explained, Facebook would contact apps
 spending more than \$250,000 on advertising and ask them to confirm the need for the data they were
 THIRD AMENDED CONSOLIDATED CLASS ACTION COMPLAINT FOR VIOLATIONS OF THE

1 Facebook’s political (“policy”) team was keen to make money by “relaxing” policies.³⁰⁰ Cambridge
 2 Analytica’s \$75-\$85 million in Facebook ad purchases was over **300 times** larger than the amount
 3 necessary to persuade Facebook’s business team to slow-enforce or not enforce any of its policies
 4 against Cambridge Analytica. Facebook’s political team in Washington DC was responsible for
 5 driving this revenue, revenue that Sandberg had referenced several times in 2016 on investor calls as
 6 a “big deal.” ¶180.³⁰¹

7 **4. During the Period When He Was Discussing “Bad Actors”**
 8 **Like Cambridge Analytica with McNamee, Rose Presents at**
 9 **the DLD Conference in Germany – One Day After Cambridge**
 10 **Analytica’s Presentation at DLD**

11 285. In November 2016 – while McNamee continued to plead with Zuckerberg, Sandberg
 12 and Rose to take responsibility for their role in Cambridge Analytica’s data misuse – reporters asked
 13 Sandberg and Schrage’s communications team about the investigation that they had told *The*
 14 *Guardian* they were conducting into Cambridge Analytica starting a year earlier.³⁰²

15 286. The media continued to press the communications team for answers into early 2017.
 16 In January 2017, Facebook and Cambridge Analytica sent representatives to a popular tech
 17 accessing, while Facebook would terminate access for apps spending less than \$250,000.” *Id.* at
 18 ¶90.

19 ³⁰⁰ *See, e.g.*, Six4Three Documents, Ex. 179 at FB-00109951 (Facebook internal email to Public
 20 Policy team, including Elliot Schrage, concerning “Policy Management” and noting “This targeting
 21 capability is only currently available for dating, but the ads product team is working to expand it to
 22 other verticals (*like political*) and make it available via self-serve. This is a big win for the dating
 23 vertical specifically, but also *supports our efforts to examine ‘good’ revenue opportunities*
 24 *resulting from policy relaxation/changes.*”).

25 ³⁰¹ Facebook’s Republican political team in Washington, DC – including Harbath, FB1, and Barnes
 26 – helped develop a business relationship with Cambridge Analytica, in particular, from at least
 27 summer 2015 through the November 2016 election. Harbath personally met with Kaiser to discuss
 28 business opportunities with Cambridge Analytica from time to time, and members of Facebook’s
 political team in DC regularly visited Cambridge Analytica’s offices with a view to selling ads to
 Cambridge Analytica’s political clients and sharing, with Cambridge Analytica, the Facebook tools
 that Cambridge Analytica could use to that end.

³⁰² SEC Complaint at ¶47 (“Beginning in November 2016, reporters asked Facebook about the
 investigation that the company said it was conducting in the December 2015 *Guardian* article.
 These inquiries were referred to Facebook’s communications group, which was aware that the
 company had confirmed that the researcher had improperly transferred personality profiles based on
 U.S. user data to Cambridge in violation of Facebook’s policy, and had told both parties to delete the
 data.”).

1 conference in Munich, Germany, known as “DLD” (Digital Life Design).³⁰³ Cambridge Analytica’s
 2 Chief Data Officer, Tayler, represented his company on January 15, 2017; Rose represented
 3 Facebook on January 16, 2017. The presentations were in Q&A format.

4 287. Tayler’s presentation focused on Cambridge Analytica’s work on the Trump
 5 campaign, which was particularly relevant to the audience in Munich at the time. A popular
 6 German-language magazine, *Das Magazin* had published an article in its December 2016 edition,
 7 titled (in its English translation) “The data that turned the world upside down.”³⁰⁴ The article relied
 8 on accounts from Michal Kosinski expressing his concerns about the way that Cambridge Analytica
 9 had commercialized his “likes” data modelling – the modelling that Facebook’s internal
 10 investigation had called “solid science” about a year earlier. By December 2016, Kosinski was
 11 teaching at Stanford University; that is where he was working in December 2015, when he warned
 12 Facebook’s investigation team about how Kogan’s activities brought his field “disrepute.”

13 288. In this context, the first question that Tayler’s moderator posed was: “Now, can I see
 14 by a show of hands, how many people in this room have read about Cambridge Analytica in the last,
 15 probably, 30 days?” Many responded in the affirmative:



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 23
 24 ³⁰³ Digital Life Design (<https://www.dld-conference.com/about>) (“While DLD has evolved from a
 25 single event into series of conferences and events throughout the years, we make sure to always
 26 preserve the atmosphere of an intimate gathering of friends through a highly curated, “by invitation
 only” application process for attendees. Our annual conference in Munich each January, shortly
 before the World Economic in Davos, is internationally renowned for attracting the best and the
 brightest in the world of digital.”).

27 ³⁰⁴ Hannes Grassegger & Mikael Krogerus, *The Data That Turned the World Upside Down*,
 28 Motherboard (Jan. 28, 2017).

1 289. When questions arose about *Das Magazin* article, Tayler responded that Kosinski was
 2 “an opportunist who’s using this [situation as] an excuse to raise his own profile.”³⁰⁵ Cambridge
 3 Analytica’s responded on the record, as *Das Magazin* published:³⁰⁶

4 In a statement after the German publication of this article, a Cambridge
 5 Analytica spokesperson said, “Cambridge Analytica does not use data from
 6 Facebook. It has had no dealings with Dr. Michal Kosinski. It does not subcontract
 7 research. It does not use the same methodology. ***Psychographics was hardly used at all.*** Cambridge Analytica did not engage in efforts to discourage any Americans
 8 from casting their vote in the presidential election. Its efforts were solely directed
 9 towards increasing the number of voters in the election.”

10 Facebook’s embeds and investigation team, including Rose, knew all of Cambridge Analytica’s
 11 statements to *Das Magazin* were false or misleading. In fact, Cambridge Analytica used
 12 misappropriated “likes” data and models that generated psychographics based upon Kosinski’s
 13 paper, which, as Facebook’s internal documents show, was “solid science” – according to
 14 Facebook’s investigation team. ¶164.

15 290. Rose presented at the DLD conference the next day. On January 16, 2017, Rose
 16 made his remarks at DLD – in a Q&A format, with the moderator and audience members asking a
 17 number of questions relating to the 2016 U.S. presidential election.



21

22 291. The moderator raised questions about how Facebook dealt with “bad actors” who
 23 disseminated misleading or absurd information such as “Hillary Clinton is a lizard.” The moderator

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25

26 ³⁰⁵ Transcription, *It’s Personal! Your Real Relationship with Data*, Digital Life Design Conference, YouTube (Jan. 22, 2017) at 10:16-17.

27 ³⁰⁶ Hannes Grassegger & Mikael Krogerus, *The Data That Turned the World Upside Down*,
 28 Motherboard (Jan. 28, 2017).

1 asked, “how much of that is being manipulated by others and how aware are you of that and how
2 aware can you make us aware of that?”³⁰⁷

3 We want to give as much voice to as many people in the world. That’s really
4 important. That’s part of our mission. We also want to have a safe environment so
5 that people feel comfortable being on Facebook and communicating on Facebook.
6 And so we’ve always had community standards and we have values that we have
7 articulated around our newsfeed – the things that we think are important to keep
8 Facebook safe and make people feel comfortable there.

9 I think that there’s always a tension, clearly, but the way that we have navigated that
10 tension is by stating our values clearly and, at the same time, understanding that our
11 role is to give voice to people.

12 Now, I will say that, within that, we’ve always teams of people at Facebook that deal
13 with bad actors, right. We’re a huge target for spam, we don’t want people on
14 Facebook being fished, and we have experience dealing with bad actors whose sole
15 intention is to manipulate the system, and one of the lessons you learn in dealing with
16 bad actors is you don’t tell them how you’re dealing with them because it just
17 informs them and helps them manipulate the system better. ***So to some extent some
18 of that we do that without being as open about it because we know that’s just going
19 to teach the bad actors how to get around it.***

20 Facebook’s internal documents referred to Cambridge Analytica’s data misuse as a kind of “bad
21 actor” conduct – it suspected the “bad actor” conduct in September 2015 and learned more facts
22 about Cambridge Analytica’s fraudulent certification and continuing data misuse thereafter. It was a
23 “bad actor,” as Facebook defined it.³⁰⁸

24 292. Rose’s statement (highlighted above) was false or misleading because the most
25 prominent, alleged “bad actor” in Germany at the time – as evidenced by the popular *Das Magazin*
26 article – was Cambridge Analytica. In truth, Facebook was not “open” about Cambridge Analytica’s
27 actions because Facebook was complicit in the bad actions – by overruling its own App Review
28 rejection; by throttling and then un-throttling data that the Quiz App never needed; by allowing
29 Cambridge Analytica to run ads that violated Facebooks’ ads policies; by “whitelisting” the Quiz
30 App so that it could take one last bite from “friends data”; by actively concealing the fact of

307 *Highlights – Friending The News (Dan Rose, Facebook & Jeff Jarvis, CUNY/Buzzmachine) - DLD17, DLD Conference, YouTube (Jan. 16, 2017); Friending The News (Dan Rose, Jeff Jarvis) - DLD17, DLD Conference, YouTube (Jan. 23, 2017).*

308 Sept. 2015-May 2016 Facebook email thread at 9 (discussing “plenty of bad actor behavior” in the political space, where political vendors were moving Facebook users’ data off the platform, figuring out who the users were in real life, and then appending those users’ “data” (personal information) to the voting records of those users for political purposes).

1 Cambridge Analytica’s policy-violating harvest even after Facebook learned its December
 2 2015/January 2016 “certification” was a fraud; by helping Cambridge Analytica execute a voter
 3 suppression campaign that rested on the misappropriated data; by giving Cambridge Analytica
 4 special marketing “partner” privileges; by giving Cambridge Analytica “embeds” who saw the
 5 continuing violations (or readily inferred them) but did not stop Cambridge Analytica; and by
 6 overlooking all of Cambridge Analytica’s policy violations in the context of a selective enforcement
 7 model that Zuckerberg and Sandberg created. Under the circumstances, Rose’s statement was false
 8 and misleading at the time, as he knew or should have known.

9 **5. Journalist Carole Cadwalladr Recalls, “Facebook’s Press
 10 Team Lied to Me in February 2017” – the Last Month of
 11 Zuckerberg’s, Sandberg’s and Rose’s Discussions with
 12 McNamee**

12 293. In February 2017, reporters continued to press Facebook for updates on its
 13 investigation into Cambridge Analytica. Facebook’s “communications group initially responded to
 14 the press inquiries indirectly. For example, beginning in February 2017, the communications group
 15 pointed reporters to Cambridge’s public statement that it ‘does not use data from Facebook’ and
 16 ‘does not obtain data from Facebook profiles or Facebook likes.’”³⁰⁹ Specifically, in February 2017,
 17 Facebook’s communications group directed reporters to this statement from the *Das Magazin* article
 18 that was published in English in two sources at the end of January:³¹⁰

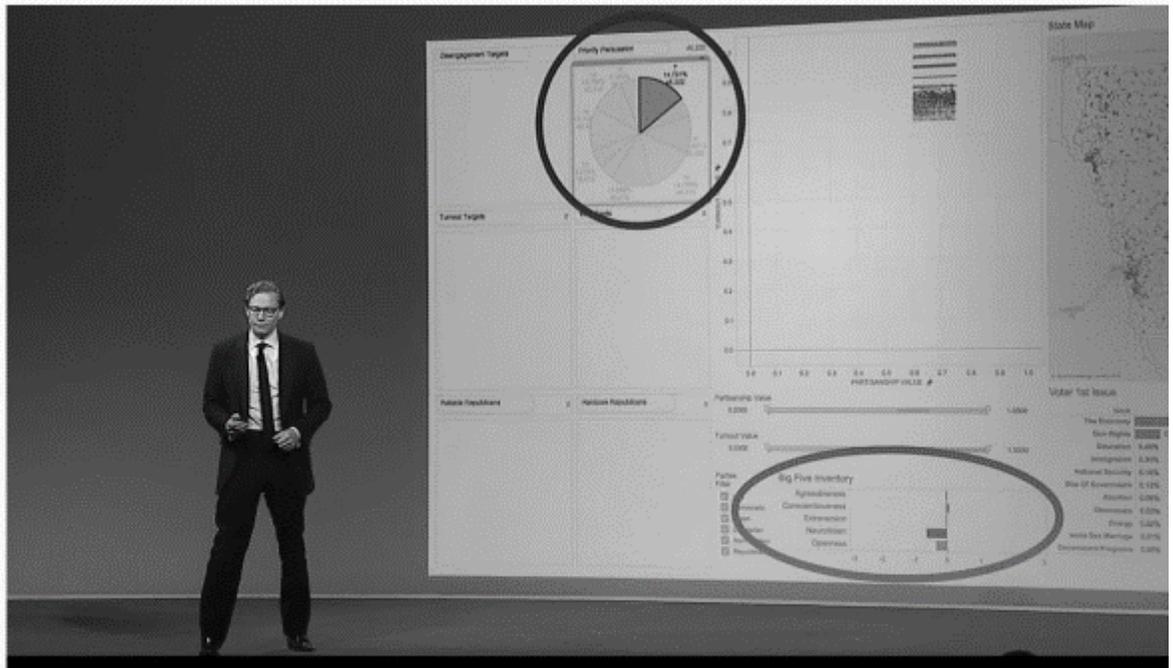
19 “Cambridge Analytica does not use data from Facebook. It has had no dealings with
 20 Dr. Michal Kosinski. It does not subcontract research. It does not use the same
 21 methodology. Psychographics was hardly used at all. Cambridge Analytica did not
 engage in efforts to discourage any Americans from casting their vote in the
 presidential election. Its efforts were solely directed towards increasing the number
 of voters in the election.”

22 The “communications group” – including Schrage and Sandberg – read that article because Schrage
 23 and Sandberg were responsible for addressing Facebook’s relationship with Cambridge Analytica in
 24 public communications. ¶¶161-162.

26 ³⁰⁹ SEC Complaint at ¶48.

27 ³¹⁰ Hannes Grassegger & Mikael Krogerus, *The Data That Turned the World Upside Down*,
 28 Motherboard (Jan. 28, 2017).

294. It follows that Facebook’s Cambridge Analytica investigation team – likely for the second time – saw Nix’s September 2016 presentation at the Concordia Summit. The *Das Magazin* article discussed that presentation over the course of eight paragraphs, linked to a video of the presentation on line, and included an image from Nix’s Concordia presentation focusing on its psychographic scoring dashboard.³¹¹



ALEXANDER NIX AT THE 2016 CONCORDIA SUMMIT IN NEW YORK. IMAGE: CONCORDIA SUMMIT

Nix shows how psychographically categorized voters can be differently addressed, based on the example of gun rights, the 2nd Amendment: “For a highly neurotic and conscientious audience the threat of a burglary—and the insurance policy of a gun.” An image on the left shows the hand of an intruder smashing a window. The right side shows a man and a child standing in a field at sunset, both holding guns, clearly shooting ducks: “Conversely, for a closed and agreeable audience. People who care about tradition, and habits, and family.”

295. The *Das Magazin* article included extensive reporting about an interview with Kosinski (previously at Cambridge University in 2014, but teaching at Stanford University by late 2015). Kosinski suspected that Cambridge Analytica had used its Facebook “likes” model. The *Das Magazin* article referred to Facebook “likes” approximately 18 times and discussed his “likes” modelling, and reported that Facebook made a “threat of a lawsuit and a job offer” to Kosinski on the date that he published his “likes” research, which rested “on an average of 68 Facebook ‘likes’”

³¹¹ *Id.*

1 from a group of volunteers.³¹² The article brought up Kogan’s work again – Kogan had changed his
2 name to “Spectre” and was living in Singapore at the time. But the *Das Magazin* article did not
3 refute Kogan’s prior assertions that he only obtained “a couple thousand” survey responses from
4 Facebook users in some “anonymous” form. ¶154. Kogan’s prior representations painted a picture
5 of a miniscule data set in comparison to the one that Kosinski had relied upon – from “58,000
6 volunteers who provided their Facebook Likes.”³¹³

7 296. On or around February 28, 2016, Schrage and Sandberg’s Cambridge Analytica
8 communications team pointed Carole Cadwalladr (“Cadwalladr”), in particular, to Cambridge
9 Analytica’s false statements in the *Das Magazin* article in February 2017. Cadwalladr was
10 investigating Cambridge Analytica’s role in the Brexit and Trump elections at the time.³¹⁴
11 Regarding the Brexit campaign, Cadwalladr interviewed an official from one of the groups
12 advocating in favor of Brexit, Andy Wigmore, who told Cadwalladr that “Cambridge Analytica had
13 worked for them” and that “Facebook was the key to the entire campaign” – a “Facebook ‘like’, he
14 said, was their most ‘potent weapon.’” This was the context in which Facebook’s communications
15 team directed Cadwalladr and others to Cambridge Analytica’s statements in *Das Magazin*.

16 297. Cadwalladr – a Pulitzer Finalist for her Cambridge reporting – would later reflect:
17 “*Facebook’s press team lied to me in February 2017.*”³¹⁵ Cadwalladr kept investigating.

18
19
20
21 ³¹² *Id.*

22 ³¹³ Michael Kosinski, David Stillwell & Thore Graepel, *Private traits and attributes are predictable*
23 *from digital records of human behavior*, *Procs. of the Nat. Acad. of Sci. of the U.S.A.* 110, 5802
(2013).

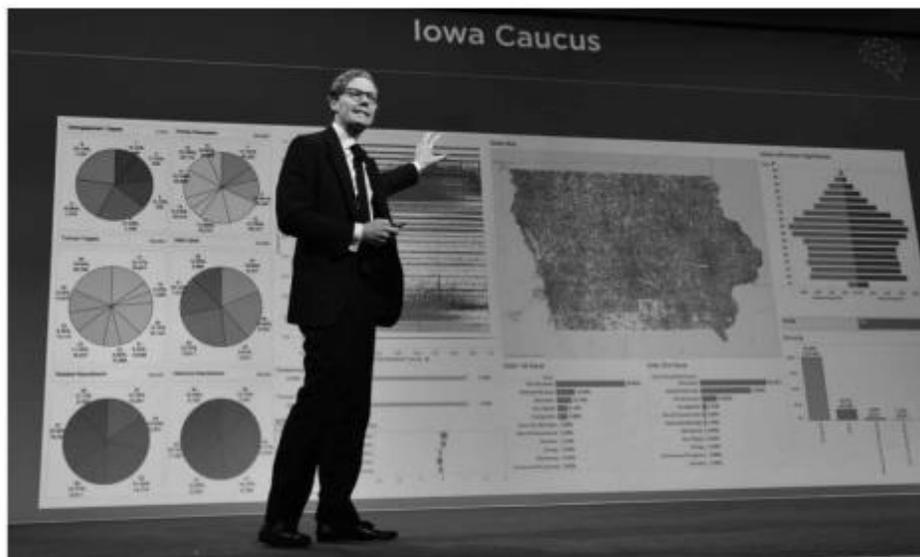
24 ³¹⁴ *See, e.g.*, Carole Cadwalladr, *Robert Mercer: the big data billionaire waging war on mainstream*
25 *media*, *Guardian* (Feb. 26, 2017).

26 ³¹⁵ David Uberti, *Facebook Misled Journalists About How Bad the Cambridge Analytica Scandal*
27 *Was*, *Vice News* (July 25, 2019); Carole Cadwalladr (@carolecadwalla), *Twitter* (July 25, 2019
28 9:41 AM); Carole Cadwalladr, *What happened when Alexandria OCasio-Cortez came face to face*
with Facebook’s Mark Zuckerberg, *Guardian* (Oct. 26, 2019); *Finalist: Staff of the New York Times*
with contributions from Carole Cadwalladr of The Guardian/The Observer of London, *Pulitzer.org*.

1 **K. Facebook’s Materially False and Misleading Statements About Its**
2 **Investigation into Cambridge Analytica**

3 **1. The March 4 and 5, 2017 Statements Were Materially False**
4 **and Misleading, as Facebook’s “Spokesperson” Knew in the**
5 **Most Direct Way**

6 298. On March, 4, 2017, Cadwalladr published yet another report concerning Cambridge
7 Analytica’s political activities in *The Guardian*. The article, titled: “Watchdog to launch inquiry into
8 misuse of data in politics,” included a photograph of Nix making its presentation at the 2016
9 Concordia Summit:³¹⁶



17 Alexander Nix speaks at the 2016 Concordia Summit at the Grand
18 Hyatt in New York on 19 September 2016. Photograph: Bryan
19 Bedder/(Credit too long, see caption)

20 299. Facebook’s investigation team saw this image – just as they had seen a video of that
21 presentation in September 2016 – and were reminded of that presentation in February 2017 when
22 they “pointed” reporters to Cambridge Analytica’s misleading statements in that report.
23 Nonetheless, as *The Guardian* reported: “A Facebook spokesperson said: ‘Our investigation to date
24 has ***not uncovered anything that suggests*** wrongdoing with respect to Cambridge Analytica’s work
25
26

27 ³¹⁶ Jamie Doward, Carole Cadwalladr & Alice Gibbs, *Watchdog to launch inquiry into misuse of*
28 *data in politics*, *Guardian* (Mar. 4, 2017).

1 on the Leave and Trump campaigns.”³¹⁷ Cadwalladr later wrote, with respect to Facebook’s
 2 (above) statement: “*Because we know Facebook lied*. The SEC investigation says that. To us at
 3 the Observer, in fact ‘. . . when asked by reporters in 2017 about its investigation into the Cambridge
 4 Analytica matter, Facebook falsely claimed the company found no evidence of wrongdoing.”³¹⁸

5 300. Facebook’s March 4, 2017 statement – “Our investigation to date has not uncovered
 6 anything that suggests wrongdoing with respect to Cambridge Analytica’s work on the Leave and
 7 Trump campaigns” – was materially false and misleading, as Facebook’s “investigation”
 8 demonstrated, and as Facebook’s “spokesperson” knew given the fact that the “spokesperson”
 9 referenced the investigation in its statement. The statement was false and misleading when made for
 10 numerous reasons because Facebook’s investigation into Cambridge Analytica discovered serious
 11 policy violations and wrongdoing, which Facebook knew by January 2016:

12 (a) the fact that the Quiz App failed Facebook’s App Review because it was
 13 designed to take data that it did not need, implying that the data would be used for some purpose no
 14 one knew about at the time;

15 (b) the fact that Facebook overruled its own rejection of the Quiz App;

16 (c) the fact that the Quiz App took so much data that it did not need that
 17 Facebook’s engineers’ “throttled” the data transfer rate, again implying the data was going to serve
 18 some purpose other than supporting some “quiz”;

19 (d) the fact that Facebook “whitelisted” the Quiz App in May 2015, giving it
 20 access to “friends data,” when it was supposedly impossible for that data to leave Facebook’s server
 21 before that time; and

22 (e) the fact that Cambridge Analytica bought “personality scores” in violation of
 23 stated policies. All of those policy violations related directly to subsequent policy violations because
 24 they all underpin Cambridge Analytica’s desire to make money from the ill-gotten data.

25 _____
 26 ³¹⁷ Jamie Doward, Carole Cadwalladr & Alice Gibbs, *Watchdog to launch inquiry into misuse of*
data in politics, Guardian (Mar. 4, 2017).

27 ³¹⁸ Carole Cadwalladr, *What happened when Alexandria OCasio-Cortez came face to face with*
 28 *Facebook’s Mark Zuckerberg*, Guardian (Oct. 26, 2019).

1 301. After January 2016, Facebook learned more facts showing serious, continuing policy
2 violations and wrongdoing, while Cambridge Analytica was working on the Trump campaign and in
3 connection with that work, including:

4 (a) on June 11, 2016, the fact that Cambridge Analytica had previously submitted
5 a fraudulent “certification” or confirmation of data deletion – the *only* “certification” that Cambridge
6 Analytica ever submitted;

7 (b) over summer 2016, the fact that Cambridge Analytica continued using the ill-
8 gotten “psychographic scores,” models and underlying data (including the Facebook User IDs);

9 (c) over summer and into fall 2016, the fact that Cambridge Analytica was
10 executing a massive voter suppression campaign aimed at protected classes based upon the ill-gotten
11 “psychographic scores” and issuing ads that violated Facebook’s ads policies;

12 (d) in or about September 2016 – and numerous times thereafter – the fact that
13 Cambridge Analytica admitted the Trump campaign “is using” the OCEAN score model and data,
14 which, only Facebook knew were based on the ill-gotten data; and

15 (e) on or about October 27, 2016, the fact that Cambridge Analytica admitted that
16 its methodologies relied upon Facebook “likes” – and, as Facebook learned privately, Cambridge
17 Analytica’s modelling methodology depended on “likes” that it bought for £750,000.

18 302. All of these facts amount to far more than *mere* “suggestions” of wrongdoing by
19 Cambridge Analytica in connection with its work on the Trump campaign, as Facebook told *The*
20 *Guardian*, and show the statements of the Facebook “spokesperson” were materially false and
21 misleading at the time, as the “spokesperson” knew or should have known, given the spokesperson’s
22 specific reference to Facebook’s “investigation” into Cambridge Analytica. And Facebook’s
23 “spokesperson” repeated that same misrepresentation at least two more times.

24 303. On March 5, 2017, *The Daily Mail* published a similar article and a substantially
25 identical statement from a Facebook spokesman that ““Our investigation to date has not uncovered
26 anything that suggests wrongdoing with respect to Cambridge Analytica’s work on the Leave and
27
28

1 Trump campaigns.”³¹⁹ This statement, like the March 4, 2017 statement, was false and misleading
 2 because Facebook had by then uncovered wrongdoing, as Facebook’s Cambridge Analytica
 3 “investigation” team knew. Reporters in the United States also looked into Facebook’s
 4 investigation.

5 **2. Facebook’s March 30, 2017 Statements About Its Cambridge**
 6 **Analytica Investigation Were Materially False and Misleading**
 7 **as Facebook Knew or Should Have Known**

8 304. On March 30, 2017, *The Intercept* published an article titled: “Facebook Failed to
 9 Protect 30 Million Users From Having Their Data Harvested by Trump Campaign Affiliate,”
 10 wherein *The Intercept* resurfaced prior reporting from December 2015.

11 305. *The Intercept*, in its March 30, 2017 article, wrote: “*The Guardian*, which was was
 12 [sic] the *first to report* on Cambridge Analytica’s work on U.S. elections, in late 2015, noted that the
 13 company drew on research ‘spanning tens of millions of Facebook users, harvested largely without
 14 their permission’”; but, as *The Intercept* reported: “Kogan disputed this at the time, telling *The*
 15 *Guardian* that his turker surveys had collected no more than ‘a couple thousand’ responses.”³²⁰

16 306. When *The Intercept* wrote its March 30, 2017, about *The Guardian* being the “first to
 17 report” the subject, those three words hyperlinked to *The Guardian*’s December 11, 2015 article,
 18 which reported:³²¹

19 After this article was published, Facebook said the company was “carefully
 20 investigating this situation” regarding the Cruz campaign.

21 “[M]isleading people or misusing their information is a direct violation of our
 22 policies and we will take swift action against companies that do, including banning
 23 those companies from Facebook and requiring them to destroy all improperly
 24 collected data,” a Facebook spokesman said in a statement to the Guardian.

25 *The Intercept*, in its March 30, 2017 article, also reported:³²²

26 _____
 27 ³¹⁹ Tim Sculthorpe, *Privacy watchdog launches a probe into how the Leave campaigns used voters’*
 28 *personal data to win Brexit*, *The Daily Mail* (Mar. 5, 2017).

³²⁰ Mattathias Schwartz, *Facebook Failed to Protect 30 Million Users From Having Their Data*
Harvested by Trump Campaign Affiliate, *The Intercept* (Mar. 30, 2017).

³²¹ Dec. 2015 *Guardian* article.

³²² Mattathias Schwartz, *Facebook Failed to Protect 30 Million Users From Having Their Data*
Harvested by Trump Campaign Affiliate, *The Intercept* (Mar. 30, 2017).

1 Shortly after The Guardian published its 2015 article, Facebook contacted Global
2 Science Research and requested that it delete the data it had taken from Facebook
3 users. Facebook’s policies give Facebook the right to deleted data gathered by any
4 app deemed to be “negatively impacting the Platform.” The company believes that
5 Kogan and SCL complied with the request, *which was made during the Republican
primary, before Cambridge Analytica switched over from Ted Cruz’s campaign to
Donald Trump’s*. It remains unclear what was ultimately done with the Facebook
data, or whether any models or algorithms derived from it wound up being used by
the Trump campaign.

6 In public, *Facebook continues to maintain that whatever happened during the run-
up to the election was business as usual. “Our investigation to date has not
7 uncovered anything that suggests wrongdoing,”* a Facebook spokesperson told *The
Intercept*.

8 *Facebook appears not to have considered Global Science Research’s data
9 collection to have been a serious ethical lapse.* Joseph Chancellor, Kogan’s main
10 collaborator on the SCL project and a former co-owner of Global Science Research,
11 is now employed by Facebook Research. “The work that he did previously has no
bearing on the work that he does at Facebook,” a Facebook spokesperson told *The
Intercept*.

12 307. Facebook’s statement – “Our investigation to date has not uncovered anything that
13 *suggests wrongdoing*” – was materially false and misleading at the time, as the “spokesperson” knew
14 or should have known for the substantially the same reasons that Facebook’s substantially similar
15 “investigation” statements of March 4 and 5 statements were materially false and misleading.

16 308. In addition, the Facebook spokesperson’s March 30, 2017 statements breathed new
17 life into Facebook’s December 11, 2015 prior statements about swiftly “banning” companies that
18 mislead people or misuse user data because *The Intercept* did discuss the Trump campaign
19 extensively, but it also discussed the root of the potential data misconduct – the 2014/2015
20 harvesting and sale of the data to Cambridge Analytica. Facebook privately concluded that
21 Cambridge Analytica *had* violated its policies; yet, Facebook did *not* “ban” Cambridge Analytica,
22 which would lead a reasonable investor to conclude that the data never reached Cambridge
23 Analytica’s hands. Far from “banning” Cambridge Analytica, it received a promotion to preferred
24 marketing partner status. Facebook sent “embeds” to help Cambridge Analytica conduct the Trump
25 campaign’s data operations. Facebook even let Cambridge Analytica violate its policy of “requiring
26 deletion” by giving Facebook the fraudulent December 2015 / January 2016 “certification” or
27 “confirmation” of deletion – a fraud that Facebook discovered no later than June 11, 2016.

1 309. On April 3, 2017 – six months after Facebook was finished billing the Trump
2 campaign \$75-\$85 million for ads – Facebook *still* had not obtained a written “certification” of
3 destruction from Cambridge Analytica, other than one that was a fraud, as Facebook knew on June
4 11, 2016. Instead, it asked “SCL Elections Limited” to sign a throwaway piece of paper saying it
5 had destroyed the purloined data and had not transferred the data to any other party, which was yet
6 another fraudulent statement, as Facebook knew on April 3, 2017, because SCL *had* transferred the
7 data to Cambridge Analytica, as Facebook had known since December 2015.

8 **L. During the Class Period, Defendants Made False Statements**
9 **Regarding User Data Control, Risks to Facebook and Compliance**
10 **with the 2012 FTC Consent Decree**

11 310. Defendants knew throughout the Class Period that third parties possessed and were
12 misusing sensitive user information. Indeed, defendants knew that Kogan had sold user data to
13 Cambridge Analytica in violation of Facebook’s policies. Defendants were also aware of
14 Facebook’s own practice of secretly “whitelisting” third parties, including multiple major
15 corporations, for continued access to users’ friends’ data after that access was supposedly shut down.
16 They further knew that Facebook was overriding users’ privacy settings. Nonetheless, defendants
17 assured the public that Facebook users could “control” their data, that the Company faced only
18 hypothetical risks of data misuse, that defendants had found no wrongdoing in their investigation of
19 Cambridge Analytica and that defendants had not violated the FTC Consent Decree. These
20 statements were false.

21 **1. Defendants Falsely Stated that Users Controlled Their Data**

22 311. Facebook and the Executive Defendants repeatedly stated during the Class Period that
23 Facebook users controlled their data on Facebook. These statements were designed to inspire trust
24 in Facebook by assuring the public (including investors) that Facebook respected user privacy and
25 only shared its users’ data with users’ knowledge and consent. On multiple occasions during the
26 Class Period, Zuckerberg, Sandberg and Facebook expressly assured the public that Facebook users
27 had control of their own data, that Facebook was not sharing sensitive user data with third parties,
28 and that Facebook was not overriding user privacy settings.

1 312. On October 12, 2017, for example, Sandberg gave an interview to *Axios* in which she
 2 stated: “[W]hen you share on Facebook, you need to know” that “no one is going to get your data
 3 that shouldn’t have it” because “*you are controlling who you share with.*”³²³ On April 4, 2018,
 4 Zuckerberg likewise stated: “[Y]ou have control over everything you put on the service.”³²⁴ This
 5 statement was reiterated on Facebook’s website in an April 24, 2018 post stating: “[It’s] important to
 6 know that *you are in control* of your Facebook, what you see, what you share, and what people see
 7 about you.”³²⁵

8 313. On April 10, 2018, Zuckerberg testified to the Joint Senate Commerce and Judiciary
 9 Committees. And he gave very precise and detailed answers assuring Congress that users controlled
 10 what information they shared, stating that “every piece of content that you share on Facebook, you
 11 own and *you have complete control* over who sees it and how you share it,” “that control is
 12 something that’s important,” and when “you sign up for the Facebook, you get the ability to share
 13 the information that you want” because “every person gets to control who gets to see their
 14 content.”³²⁶

15 314. These and similar statements detailed below (*see* §VI.A.) were materially false and
 16 misleading. In reality, throughout the Class Period, defendants knew that users did not have control
 17 over their personal data because Facebook was engaged in a massive – and secret – information
 18 sharing campaign with whitelisted app developers and business partners who were given users’
 19 friends’ data in exchange for providing benefits to Facebook. Facebook deliberately provided this
 20 information to third parties despite the fact that: (i) Facebook users did not know about and had *not*
 21 consented to the information sharing; (ii) doing so was an obvious breach of the FTC Consent
 22 Decree; and (iii) defendants themselves had stated publicly in April 2014 that such information was
 23 *not* being shared.

24 ³²³ Mike Allen, *Exclusive interview with Facebook’s Sheryl Sandberg*, *Axios* (Oct. 12, 2017).

25 ³²⁴ *Hard Questions: Q&A With Mark Zuckerberg on Protecting People’s Information*, Facebook
 26 Newsroom (Apr. 4, 2018).

27 ³²⁵ *How to Take Control of Your Facebook*, Facebook Newsroom (Apr. 24, 2018).

28 ³²⁶ *Transcript of Mark Zuckerberg’s Senate hearing*, Wash. Post (Apr. 10, 2018).

1 315. As extensively detailed in the FTC Complaint filed in connection with Facebook’s
 2 record-breaking \$5 billion settlement with the FTC, Facebook’s own admissions to the United States
 3 Senate, news reports, and other disclosures the Company was illicitly sharing reams of sensitive user
 4 data with third parties without user knowledge or consent while making contrary representations to
 5 the public.

6 316. The FTC Complaint explains that that from “April 30, 2015, to *at least June 2018*,”
 7 Facebook falsely stated that users could “control” the privacy of their data “by using Facebook’s
 8 desktop and mobile privacy settings to limit to their Facebook Friends the information that Facebook
 9 could share.” In reality, “regardless of the privacy settings a user checked, Facebook continued to
 10 provide access to [user friend data] to Whitelisted Developers.”³²⁷

11 317. These Whitelisted Developers included dozens of “gaming, retail, and technology
 12 companies, as well as third-party developers of dating apps and other social media services.”³²⁸ As
 13 the FTC charged: “Facebook did not tell its users that it was still granting these Whitelisted
 14 Developers access to their data,” and users “had no way of knowing that Facebook would still share
 15 it with these Whitelisted Developers.”³²⁹

16 318. This special access allowed specifically approved third parties, including app
 17 developers and mobile device makers, to “access user data without permission” including by
 18 allowing them to “circumvent users’ privacy [or] platform settings and access Friends’ information,
 19 even when the user disabled the Platform.”³³⁰

20 319. Relatedly, an investigation by *The New York Times* revealed that, during the Class
 21 Period, Facebook had “struck agreements allowing phone and other device makers access to vast
 22 amounts of its users’ personal information.” As set forth in the article, Facebook allowed *at least 60*
 23 phone and other device makers continued access “to the data of users’ friends without their explicit
 24

25 ³²⁷ See FTC Complaint at ¶¶173-174; see also generally *id.* at ¶¶106-113, 166-175.

26 ³²⁸ *Id.* at ¶108.

27 ³²⁹ FTC Complaint at ¶¶112-113.

28 ³³⁰ U.K. Parliamentary Comm. Final Rep. at 28.

1 consent” throughout 2017 and 2018 – “even after [Facebook] declar[ed] that it would no longer
2 share such information with outsiders.”³³¹ *The New York Times* reported that Facebook entered into
3 these whitelisting agreements with dozens of third parties such as *Apple, Amazon, Blackberry,*
4 *Microsoft and Samsung* – which “allowed Facebook to expand its reach.” Further, “most” of these
5 relationships “remain[ed] in effect” in June 2018 (with Facebook starting to wind down some in
6 April 2018). According to the article:³³²

7 [T]he partnerships, whose scope has not previously been reported, raise concerns
8 about the company’s privacy protections and compliance with a 2011 consent decree
9 with the Federal Trade Commission. Facebook allowed the device companies access
10 to the data of users’ friends without their explicit consent, even after declaring that it
would no longer share such information with outsiders. Some device makers could
retrieve personal information even from users’ friends who believed they had barred
any sharing, *The New York Times* found.

11 320. Even Facebook itself has admitted, in response to written questions from Congress,
12 that certain of these “whitelisting” relationships, including with Tobii, Apple and Amazon, continued
13 through at least October 2018.

14 321. The fact that Facebook was overriding users’ privacy settings in order to provide
15 these third parties with data contradicted defendants’ Class Period statements and violated the 2012
16 FTC Consent Decree, which required the Company to obtain express consent before enacting
17 changes that overrode users’ privacy preferences. This practice also violated Parts I.B and I.C of the
18 FTC Consent Decree, which, as discussed above, prohibited Facebook from misrepresenting the
19 extent to which users could control their data and the extent to which Facebook makes user data
20 available to third parties.

21 322. One of the sources for *The New York Times*’ reporting, Ashkan Soltani (“Soltani”), a
22 former Chief Technology Officer of the FTC (who also worked on the FTC’s 2011 investigation into
23 Facebook), reported that: “Whitelisted ‘partners’ could access friend’s non-public profile
24 information including religion, birthday, political affiliation, location even with ‘platform settings’
25 (Apps, Websites, and Games) was turned off . . . @Facebook ‘whitelisted’ platform partner’s apps

26 ³³¹ Nicholas Confessore, Gabriel J.X. Dance and Michael LaForgia, *Facebook Gave Device Makes*
27 *Deep Access to Data on Users and Friends*, N.Y. Times (June 3, 2018).

28 ³³² *Id.*

1 by automatically registering them as ‘installed’ for a given user’s friends (is_app_user = true) in the
 2 platform API, *overriding users’ privacy settings*.”³³³ Soltani further explained that “a tell-tale sign
 3 of an @FTC-like problem is when the legal department updates the data use policy to ‘clarify’ that
 4 these arrangements existed after a press inquiry.” He pointed to Facebook’s “clarification between”
 5 May 20, 2018, and June 3, 2018.

6 323. In testimony to the U.K. Parliamentary Committee (the “Soltani Test”), Mr. Soltani
 7 also confirmed that: “As recently as June 2018, using the Blackberry token that *The New York Times*
 8 was testing with, which was provided to me, I was able to access user data *in lieu of a user’s*
 9 *platform settings*.”³³⁴

10 324. He further testified: “. . . based on *The New York Times* reporting and my testing,
 11 [user friend data] was still accessible to certain apps – at least the whitelisted apps that we tested”
 12 after Facebook and Zuckerberg had announced in 2014 that it would no longer be available.³³⁵
 13 Indeed, Mr. Soltani confirmed that Facebook “*allowed whitelisted apps to completely override*
 14 *[platform] setting[s] altogether*”³³⁶ and did so for nearly a decade through 2018:

15 **Jo Stevens:** So we are effectively talking about, in the case of whitelisted apps,
 16 potentially nine years – nearly a decade – when they have been able to access –

17 **Ashkan Soltani:** Friends’ information.

18 **Jo Stevens:** – friends’ information, overriding privacy settings?

19 **Ashkan Soltani:** That’s right; I believe so, yes.³³⁷

20 325. In connection with his testimony to the U.K. Parliamentary Committee about
 21 Facebook’s improper whitelisting practices, Soltani identified Sandberg as the Facebook executive
 22 responsible for making the decision to engage in this practice. Soltani testified:³³⁸

23 ³³³ Ashkan Soltani (@ashk4n) TWITTER (June 4, 2018).

24 ³³⁴ Soltani Test at Q4333.

25 ³³⁵ *Id.* at Q4335.

26 ³³⁶ *Id.* at Q4342.

27 ³³⁷ *Id.* at Q4343.

28 ³³⁸ *Id.* at Q4348.

1 My understanding is that a lot of these decisions [including whitelisting and
2 overriding privacy settings] are [Ms. Sandberg's]. She is the one who makes the
3 monetization calls and makes the priorities, and that is who I would want to see up
4 here testifying on these business decisions, and specifically on the monetization and
5 decisions of what to prioritize.

6 326. The Six4Three Documents discussed above also show that whitelisting was
7 widespread. For example, an internal Facebook email exchange dating from November 2013 reveals
8 that Facebook had at least “5,200 existing whitelisted apps.”³³⁹

9 327. This unauthorized information sharing program included foreign companies with
10 close ties to foreign governments. On June 5, 2018, *NBC News* reported that Facebook had
11 improperly shared user data with “Chinese companies believed to be national security risks.”³⁴⁰
12 Under pressure from members of Congress, Facebook later revealed that it had “integrations” under
13 which it shared users’ data with Chinese companies Lenovo, OPPO, and TCL.³⁴¹

14 328. On June 5, 2018, *The Washington Post* reported that:³⁴²

15 ***Facebook admitted Tuesday that it allowed Huawei, a Chinese telecom company***
16 ***with alleged ties to the country’s government, to have special access to data about***
17 ***the social site’s users, an arrangement that could stoke fears that consumers’***
18 ***personal information is at risk.***

19 The relationship between Facebook and Huawei was one of the special agreements
20 brokered between the social giant and device makers over the past decade that sought
21 to make it easier for Facebook users to access site services on a wide array of
22 technologies.

23 ***For years, lawmakers in Congress and top U.S. national security officials have***
24 ***raised red flags about the security of Huawei products, fearing that the Chinese***
25 ***government could demand access to communications stored on their devices or***
26 ***servers. The company has denied the charges, but the Pentagon took the rare step***
27 ***this year of banning sales of Huawei smartphones on U.S. military bases.***

28 ³³⁹ Six4Three Documents, Ex. 100 at FB-00521473.

³⁴⁰ Alyssa Newbomb, *Sen. Bill Nelson asked: “What in the world is next? And what in the world is going to protect American’ personally identifiable private information?”, NBC News* (June 6, 2018); see also Ben Brody & Steven Dennis, *Senators Aim to Call Facebook, Google, Twitter to Hearings*, Bloomberg (June 7, 2018) (quoting Sen. Cornyn: “Huawei is a ‘Chinese national-security threat to the United States and any collaboration there is a problem’”).

³⁴¹ See Ben Brody & Sarah Frier, *Facebook Discloses It Shared Data With Chinese Device Makers*, Bloomberg (June 6, 2018).

³⁴² Tony Romm, *Facebook granted devices from Huawei, a Chinese telecom firm, special access to social data*, Wash. Post (June 5, 2018).

1 *The Washington Post* further reported that “the social media giant quietly *began unwinding* the
2 program in April” – that is, *April 2018*.

3 329. On June 8, 2018, *The Wall Street Journal* reported that even more companies than
4 previously reported had been whitelisted well after the point when Facebook claimed to have
5 stopped sharing user data in this manner. As detailed in the article, which described the previously
6 undisclosed agreements:³⁴³

7 Facebook Inc. [FB 0.49%] struck customized data-sharing deals that gave select
8 companies special access to user records well after the point in 2015 that the social
9 network has said it walled off that information, according to court documents,
10 company officials and people familiar with the matter.

11 Some of those and other agreements, collectively known internally as “whitelists,”
12 also allowed certain companies to access additional information about a user’s
13 Facebook friends, the people familiar with the matter said. That included
14 information like phone numbers and a metric called “friend link” that measured the
15 degree of closeness between users and others in their network, the people said.

16 The whitelist deals were struck with companies including Royal Bank of Canada and
17 Nissan Motor Co., who advertised on Facebook or were valuable for other reasons,
18 according to some of the people familiar with the matter. They show that Facebook
19 gave special data access to a broader universe of companies than was previously
20 disclosed. They also raise further questions about who has access to the data of
21 billions of Facebook users and why they had access, at a time when Congress is
22 demanding the company be held accountable for the flow of that data.

23 Many of these customized deals were separate from Facebook’s data-sharing
24 partnerships with at least 60 device makers, which it disclosed this week. Several
25 lawmakers and regulators have said those device-maker arrangements merit further
26 investigation.

27 * * *

28 Privacy experts said Facebook users likely didn’t know how their data was being
shared.

* * *

Eventually, Facebook set up internal teams dedicated to brokering and developing
customized data deals.

³⁴³ Deepa Seetharaman & Kirsten Grind, *Facebook Gave Some Companies Special Access to Additional Data About Users’ Friends*, Wall St. J. (June 8, 2018).

1 330. On July 11, 2018, CNN revealed that Facebook had given a “Russian internet
2 company with links to the Kremlin” the right:³⁴⁴

3 to collect data on unknowing users of the social network after a policy change
4 supposedly stopped such collection. Facebook told CNN on Tuesday that apps
5 developed by the Russian technology conglomerate Mail.Ru Group, were being
6 looked at as part of the company’s wider investigation into the misuse of Facebook
7 user data in light of the Cambridge Analytica scandal.³⁴⁵

8 331. A July 12, 2018 article in *The New York Times* confirmed that the same type of “rich
9 behavioral data” provided to Cambridge Analytica was also provided to Mail.Ru Group. *The New
10 York Times* article stated that Facebook “gave a Kremlin-linked company access to years of user
11 data. You are right to be scared.”³⁴⁶

12 332. Until at least early April 2018, Facebook was exposing private friends lists to third-
13 party app developers through “taggable friends” interface on the Facebook Platform. As reported
14 by *The Telegraph* on April 17, 2018: “Facebook exposed private friend lists to app developers
15 without their knowledge until two weeks ago, despite claiming to have blocked the service three
16 years ago.”

17 333. This practice allowed apps to collect the friend lists of anybody who had installed the
18 app, exposing their names and profile photos. Facebook quietly switched the “taggable friends”
19 interface off on April 4, 2018, burying the announcement among a series of other privacy
20 measures.³⁴⁷

21 334. In sum, contrary to defendants’ Class Period representations, Facebook users did not
22 have control over their most sensitive data. To the contrary, Facebook was deliberately shared by

23 ³⁴⁴ Donie O’Sullivan, Drew Griffin & Curt Devine, *Russian company had access to Facebook user
24 data through apps*, CNN Business (July 11, 2018).

25 ³⁴⁵ *Id.* (Donie O’Sullivan, Drew Griffin & Curt Devine, *Russian company had access to Facebook
26 user data through apps*, CNN Business (July 11, 2018)).

27 ³⁴⁶ Siva Vaidhyanathan, *This Russian Company Knows What You Like on Facebook*, N.Y. Times
28 (July 12, 2018).

³⁴⁷ Margi Murphy, *Facebook quietly stopped apps from harvesting users’ private data just two
weeks ago*, *Telegraph* (Apr. 17, 2018).

1 Facebook with dozens – and perhaps thousands – of non-parties pursuant to contractual
2 arrangements that they had with Facebook.

3 **2. As the SEC Found, Facebook Made Materially False**
4 **Statements About the Risks Facing the Company Due to the**
5 **Cambridge Analytica Scandal**

6 335. During the Class Period, Facebook filed two Form 10-K annual reports and four Form
7 10-Q quarterly reports with the SEC. In each of those periodic reports Facebook included generic
8 language stating that a risk it faced was that third parties might obtain or misuse sensitive user
9 information. These boilerplate warnings were written as hypothetical investment risks, *i.e.*, that
10 there *could* be injury to investors “*if*” a third party were to fail to adhere to Facebook’s guidelines
11 because it might result in sensitive user data being “improperly accessed.”

12 336. For example, in its Form 10-K filed on February 3, 2017, the first day of the Class
13 Period, Facebook stated that “*if* developers fail to adopt or adhere to adequate data security practices
14 . . . our data or our users’ data *may be* improperly accessed, used or disclosed.”³⁴⁸ The Form 10-K
15 also stated that “any failure to prevent or mitigate security breaches and improper access to or
16 disclosure of our data or user data *could* result in the loss or misuses of such data, which could harm
17 our business and reputation[.]”³⁴⁹

18 337. Nearly identical risk warnings were made in each subsequent Form 10-K and Form
19 10-Q filed by Facebook during the Class Period. These include Facebook’s quarterly reports on
20 Forms 10-Q for the: (1) period ended March 31, 2017 (“*if* these third parties or developers fail to
21 adopt or adhere to adequate data security practices . . . our data or our users’ data *may be* improperly
22 accessed, used or disclosed”); (2) period ended June 30, 2017 (same); (3) period ended September
23 30, 2017 (same); period ended March 31, 2018 (same); and (4) period ended September 30, 2018
24 (same). In addition, Facebook’s annual report on Form 10k for the fiscal year ended December 31,
25 2017, filed on February 1, 2018, made the same statement as well as stating “any failure to prevent
26

27 ³⁴⁸ FY 2017 Facebook, Inc. Form 10-K (Jan. 31, 2018) at 13.

28 ³⁴⁹ *Id.*

1 or mitigate security breaches and improper access to or disclosure of our data or user data *could*
2 result in the loss or misuses of such data, which could harm our business and reputation.”³⁵⁰

3 338. As confirmed by facts set forth in the recent SEC Complaint, which Facebook settled
4 for \$100 million, Facebook knew or deliberately disregarded throughout the Class Period that each
5 of these statements was materially false and misleading. As the SEC concluded, they acted “as a
6 *fraud or deceit upon purchasers*” of Facebook’s securities.

7 339. The SEC relied upon detailed and specific evidence showing that, from at least
8 December 2015 through March 16, 2018 Facebook knew that Cambridge Analytica had sensitive
9 user information and was using it for improper purposes that created risks for the Company. But
10 despite this knowledge, Facebook misled investors by repeatedly telling the market that the risks
11 were only hypothetical.

12 340. These facts set forth in the SEC Complaint are consistent with those detailed by other
13 sources above. *See* §IV.C.-L., *supra*.

14 3. Defendants Made False Statements Regarding Their Response 15 to Cambridge Analytica’s Misconduct

16 341. In addition to the false and misleading statements about Facebook’s investigation into
17 Cambridge Analytica in March 2017 (§IV.K.), Defendants also made false and misleading
18 statements about their response to Cambridge Analytica’s misconduct.

19 342. When *The Guardian* first reported on the Cambridge Analytica scandal in December
20 2015, a Facebook spokesman was quoted in the story stating, “[W]e will take swift action against
21 companies that [violate Facebook’s privacy policies], including banning those companies from
22 Facebook and requiring them to destroy all improperly collected data.”³⁵¹ Moreover, Facebook’s data
23 use policy in effect for most of the Class Period stated that Facebook would “notify our users” if
24 Facebook “confirmed their accounts have been compromised.”³⁵²

25
26 ³⁵⁰ FY 2018 Facebook, Inc. Form 10-K (Jan. 31, 2019) at 13.

27 ³⁵¹ Dec. 2015 *Guardian* article.

28 ³⁵² Facebook Terms of Service (Jan. 30, 2016).

1 343. As set forth above, recently-revealed facts demonstrate that these (and other
2 statements set forth below in §VI.D.) were materially false and misleading. Contrary to their public
3 statements during and prior to the Class Period, defendants’ response to learning December 2015
4 about Cambridge Analytica’s violations of Facebook policy was inadequate and primarily focused on
5 minimizing bad publicity for Facebook rather than protecting Facebook’s users from further misuse
6 of their data. Facebook did not take any sort of “swift action” against Cambridge Analytica, it did
7 not “require” Cambridge Analytica to “destroy” user data that Facebook knew it had, and it did not
8 notify either the FTC or the 87 million users whose data was compromised.

9 344. **Facebook Did Not Notify Users.** The fact that Facebook should have notified these
10 users that their data had been compromised has been acknowledged by defendants themselves. In
11 March 2018, Zuckerberg acknowledged that Facebook should have informed users of the data
12 breach, claiming that he “regret[s] that we didn’t [issue a notification] at the time. And I think that
13 we got that wrong.”³⁵³ Sandberg has also recognized that “*we have the responsibility to disclose to*
14 *people when problems occur*[],” admitting that the Company failed to meet its disclosure
15 responsibility.³⁵⁴ When asked directly whether Facebook should have timely disclosed that
16 Facebook users’ data had been stolen, Sandberg admitted, “Yes, you are right and we should have
17 done that. Of course you are right, and we should have done it.”³⁵⁵

18 345. Indeed, the plain language of Facebook’s data use policy in effect for most of the
19 Class Period stated that Facebook would notify users when they learned that the user account had
20 been compromised.³⁵⁶ There was no exception to this policy if Facebook believed – however
21 implausibly – that the data had later been deleted years after it was compromised. Facebook itself
22 admits that it determined in December 2015 that a massive amount of user data had been shared

23 ³⁵³ Interview by Laurie Segall, with Mark Zuckerberg, Chief Operating Officer of Facebook, CNN
24 (Mar. 22, 2018).

25 ³⁵⁴ *CNBC Exclusive: CNBC Transcript: Sheryl Sandberg Sits Down with CNBC’s Julia Boorstin*
Today, CNBC (Mar. 22, 2018).

26 ³⁵⁵ Eun Kyung Kim, *Sheryl Sandberg on TODAY: Other Facebook data breaches ‘possible’*, Today
27 (Apr. 6, 2018).

28 ³⁵⁶ Facebook Terms of Service (Jan. 30, 2016).

1 improperly with Cambridge Analytica (affecting nearly 87 million users) and this sharing violated
2 Facebook’s terms of use. At this point Facebook knew that the user’s accounts were “compromised”
3 and they should have been notified immediately under the terms of Facebook’s own data use policy.

4 346. ***Facebook Did Not “Require” Deletion of Data.*** Facebook did not actually “require”
5 that GSR and Cambridge Analytica delete the user data. Instead, Facebook pretended to rely on oral
6 promises and unverified and utterly implausible certifications (from known bad actors) that data had
7 been deleted. Facebook did so even though defendants knew that GSR and Cambridge Analytica
8 had repeatedly lied to Facebook regarding the scope and type of user data Cambridge Analytica had
9 obtained.

10 347. Zuckerberg has conceded that Facebook’s failure to follow up on and investigate the
11 extent of the Cambridge Analytica data breach and assure that compromised data was deleted was
12 the “biggest mistake[]”³⁵⁷ Facebook ever made. As he ultimately admitted, Facebook “should have
13 been doing more all along” to protect their users’ privacy.

14 348. Sandberg has also admitted that it was a “mistake that [Facebook] did not verify”
15 whether Cambridge Analytica had deleted the user data³⁵⁸ and acknowledged that the Company
16 should have “checked”³⁵⁹ and “follow[ed]-up”³⁶⁰ to ensure Facebook user’s personal data was, in
17 fact, protected. She stated that Facebook was “not focused enough on the possible misuses of data”
18 and “protecting people’s data” at the time.³⁶¹ Sandberg has also admitted that Facebook “could have
19 done . . . two and a half years ago” what it is doing today.³⁶² Facebook’s Chief Privacy Officer, Erin

20 _____
21 ³⁵⁷ Nicholas Thompson, *Mark Zuckerberg Talks to Wired About Facebook’s Privacy Problem*,
Wired (Mar. 21, 2018).

22 ³⁵⁸ *CNBC Exclusive: CNBC Transcript: Sheryl Sandberg Sits Down with CNBC’s Julia Boorstin*
23 *Today*, CNBC (Mar. 22, 2018).

24 ³⁵⁹ Eun Kyung Kim, *Sheryl Sandberg on TODAY: Other Facebook data breaches ‘possible’*, Today
(Apr. 6, 2018).

25 ³⁶⁰ Steve Inskeep, *Full Transcript: Facebook COO Sheryl Sandberg On Protecting User Data*, NPR
26 (Apr. 5, 2018).

27 ³⁶¹ Judy Woodruff, *Sheryl Sandberg: Facebook ‘made big mistakes’ on protecting user data*, PBS
(Apr. 5, 2018).

28 ³⁶² Mike Allen, *Exclusive interview with Facebook’s Sheryl Sandberg*, Axios (Oct. 12, 2017).

1 Egan has similarly admitted that “we should have done more to investigate claims about Cambridge
2 Analytica and take action in 2015.”³⁶³

3 349. During his Senate testimony, Zuckerberg admitted that, nearly three years after the
4 breach had been detected, Facebook *still* had not verified that the affected data had been deleted.
5 Zuckerberg’s testimony leaves no doubt that Facebook had failed to conduct an investigation or
6 audit or make any other effort to require deletion of the data compromised by Cambridge Analytica
7 in a manner consistent with the Company’s public assurances of what would be done in response to
8 the abuses of user data.³⁶⁴

9 350. Given the size and nature of the breach, and the public representations about the
10 seriousness with which such violations were taken and the swift repercussions that would follow, it
11 was reckless for defendants to fail to undertake audits and other measures at the time of a data
12 breach. The same is true for their reliance on unverified and self-serving certifications of the type
13 described by Wylie to assume that the risks had been eliminated. It was especially reckless for
14 Facebook to do so given its position at the forefront of technological innovation and monetization of
15 personal information.

16 351. Defendants were well aware of the risks of relying on Cambridge Analytica’s bald
17 assertions that data had been deleted. Zuckerberg, Sandberg and numerous other high-ranking
18 executives of Facebook knew all too well how easy it was to obtain private data, and how difficult it
19 was to retrieve it once it had been leaked into the public domain.

20 352. Wylie’s 2018 testimony to the U.K. Parliament lays bare how easy it was for the user
21 data to be accessed indefinitely. In his testimony, Wylie explained that the user data possessed by
22 Cambridge Analytica was “completely fungible in the sense that you can copy it a million times, it

23 _____
24 ³⁶³ Sheera Frenkel & Adam Satariano, *Facebook Fined in U.K. Over Cambridge Analytica Leak*,
N.Y. Times (July 10, 2018).

25 ³⁶⁴ *Transcript of Mark Zuckerberg’s Senate hearing*, Wash. Post (Apr. 10, 2018) (“we need to . . .
26 go do a full audit of all of Cambridge Analytica’s systems to understand what they’re doing, whether
27 they still have any data, to make sure that they remove all the data. If they don’t, we’re going to take
28 legal action against them to do so.”); Committee Hearing Transcript at 77 (“For Cambridge
Analytica, first of all, we need to finish resolving this by doing a full audit of their systems to make
sure that they delete all the data that they have and so we can fully understand what happened.”).

1 can go anywhere and . . . [i]t is often impossible to ascertain where did the data go or where is it or
2 how much of it [there] is.”³⁶⁵

3 353. In his written testimony to the United States Senate, Wylie explained that Cambridge
4 Analytica “often stored or transmitted data in insecure formats, including files of hundreds of
5 thousands of Americans’ data being passed around via unencrypted emails. [Cambridge Analytica]
6 also allowed access to its American datasets to external contractors, including senior staff from the
7 company Palantir.”³⁶⁶ Wylie’s testimony also noted how Cambridge Analytica’s parent, SCL, “has a
8 documented history of poor handling of sensitive data” and had been criticized in the U.K. “for its
9 inability to properly handle sensitive Ministry of Defense information.”³⁶⁷

10 354. Facebook’s purported reliance on oral assurances and unverified (and long delayed)
11 “certifications” from GSR and Cambridge Analytica is all the more implausible given the facts
12 detailed above showing how Facebook knew that Cambridge Analytica was “sketchy (to say the
13 least)” and that Cambridge Analytica and GSR had repeatedly lied to Facebook about the scope and
14 type of data that had been taken, as well as repeatedly lying that it had been deleted. *See* §IV.L.2.

15 355. When asked why he thought Facebook never “made any efforts to retrieve or delete
16 data,” Wylie testified that he thought Facebook did not push the issue because “if you want to
17 investigate a large data breach, that is going to get out and that might cause problems,” and that his
18 “*impression [was] they have sort of wanted to push it under the rug.*”³⁶⁸

19 **4. Defendants Made Materially False and Misleading Statements**
20 **Regarding Their Compliance with the FTC Consent Decree**

21 356. The 2012 FTC Consent Decree was in effect throughout the Class Period. As
22 Zuckerberg explained in testimony to the Senate Commerce Committee on June 8, 2012, the FTC

23

24 ³⁶⁵ Wylie U.K. Test. at Q1337-Q1338 (intervening comment omitted).

25 ³⁶⁶ Wylie Stmt. at ¶28. *See* Wylie Test. at Q1324; *see also* at Q1341 (Wylie: “Staff at Palantir had
26 access to the data; all kinds of people had access to the data.”).

27 ³⁶⁷ *Id.* at 29.

28 ³⁶⁸ Wylie U.K. Test at Q1339.

1 Consent Decree obligated Facebook “not to misrepresent the extent to which it maintains the privacy
2 or security” of user data.

3 357. At various times during the Class Period, defendants made public assurances that they
4 were complying with the FTC Consent Decree. In particular, after the March 2018 disclosures
5 regarding Cambridge Analytica, defendants engaged in an aggressive public relations campaign to
6 reassure the market that Facebook had not violated the FTC Consent Decree. These public
7 statements included:

- 8 • On March 18, 2018, in a *Washington Post* article, Facebook stated: “We reject any
9 suggestion of violation of the consent decree. ***We respected the privacy settings*** that
10 people had in place.”³⁶⁹
- 11 • On April 4, 2018, Zuckerberg stated: “You asked about the FTC consent order.
12 We’ve worked hard to make sure that we comply with it.”³⁷⁰
- 13 • On April 5, 2018, in an interview with NPR, Sandberg stated: “The FTC consent
14 decree was important. ***And we’ve taken every step we know how to make sure we’re***
15 ***in accordance with it.***”³⁷¹
- 16 • On April 10, 2018, in response to questions about the FTC Consent Decree from the
17 Joint Senate Commerce and Judiciary Committees, Zuckerberg stated that they had
18 changed Facebook in 2014 “so that that way it just massively restricts the amount of
19 – of data access that a developer could get.”³⁷²

20 358. On June 8, 2018, in response to written questions submitted by the Senate Commerce
21 Committee whether the FTC Consent Decree was implicated by Facebook’s recent disclosures
22 around Cambridge Analytica, Zuckerberg stated that it was not because “Facebook accurately
23 represented the operation of its developer Platform and the circumstances under which people could
24 share data (including friends data) with developers [and] ***honored the restrictions of all privacy***
25 ***settings that covered developer access to data.***”

26 ³⁶⁹ Craig Timberg & Tony Romm, *Facebook May Have Violated FTC Privacy Deal, Say Former*
27 *Federal Officials, Triggering Risk Of Massive Fines*, Wash. Post (Mar. 18, 2018).

28 ³⁷⁰ Q&A With Mark Zuckerberg on Protecting People’s Information, Facebook Newsroom (Apr. 4,
2018).

³⁷¹ Steve Inskip, *Full Transcript: Facebook COO Sheryl Sandberg on Protecting User Data*,
National Public Radio (Apr. 5, 2018).

³⁷² *Transcript of Mark Zuckerberg’s Senate hearing*, Wash. Post (Apr. 10, 2018).

1 359. As described above, these statements were materially false and misleading. Far from
2 respecting the restrictions on privacy settings, Facebook was secretly sharing massive amounts of
3 user data with third parties and actively overriding users' privacy settings as described above.
4 Facebook was secretly overriding users' privacy settings in order to share information about users'
5 friends with a wide array of "whitelisted" third-party app developers and major corporations. Thus,
6 defendants' statements regarding user control, including in the context of the FTC Consent Decree
7 were materially false and misleading.

8 **M. Facebook's Failure to Respond to the Cambridge Analytica Breach in**
9 **a Manner Consistent with Its Prior Public Statements Is Revealed,**
10 **Causing Massive Economic Losses to the Class**

11 360. On March 12, 2018 *The New York Times* and *The Guardian* contacted Facebook for
12 comment on articles they were planning to jointly publish regarding Cambridge Analytica's use of
13 Facebook user data. These articles were going to address the fact that the user data had been deleted.
14 After initially threatening to sue the publications to delay or prevent publication,³⁷³ Facebook sought
15 to pre-empt their articles by issuing a press release of its own.

16 361. Thus, on Friday, March 16, 2018, Facebook announced in an article published on the
17 Company's investor relations website that it was suspending Cambridge Analytica, its parent
18 company, and whistleblower Wylie for sharing Facebook's users' data without the users' consent.
19 In the article, Facebook stated: "In 2015, we learned that [Kogan] lied to us and violated our
20 Platform Policies by passing data . . . to SCL/Cambridge Analytica [and] Christopher Wylie of
21 Eunoia Technologies Inc." Facebook explained that "[a]pproximately 270,000 people downloaded
22 the app" and "[i]n so doing, they gave their consent for Kogan to access [their data]."³⁷⁴ The article
23 asserted that "[w]hen [Facebook] learned of the violation in 2015" it had "demanded certification
24 from Kogan and all parties he had given data to that the information had been destroyed." Alluding
25 to the prior media contacts, the article asserted that "Several days ago, we received reports that,

26 ³⁷³ See, e.g., Carole Cadwalladr (@carolecadwalla) TWITTER (Mar. 17, 2018, 6:07 AM)
27 ("Yesterday @facebook threatened to sue us.") (March 17, 2018).

28 ³⁷⁴ Paul Grewal, *Suspending Cambridge Analytica and SCL Group From Facebook*, Facebook
Newsroom (Mar. 16, 2018).

1 contrary to the certifications we were given, not all data was deleted.” The Company said it was
2 “moving aggressively to determine the accuracy of the claims” and asserted it was “committed to
3 vigorously enforcing our policies to protect people’s information” and “will take whatever steps are
4 required to see that this happens,” including taking legal action “to hold [violators] responsible and
5 accountable for” their actions. Referring to Zuckerberg’s April 2014 announcement that access to
6 user friend data would be shut-off, Facebook further stated: “In 2014 . . . we made an update to
7 ensure that each person decides what information they want to share about themselves, including
8 their friend list.”³⁷⁵

9 362. The March 16, 2018 article did not disclose that – despite knowing that Cambridge
10 Analytica had “lied” – Facebook had waited many months after first learning about the improper
11 data access to request certifications from Cambridge Analytica, Kogan and Wylie. Nor did the
12 article disclose that other than collecting the worthless certifications, Facebook had made no effort to
13 determine how much user data had been compromised, what that data contained, what users were
14 affected, who else had access to their data, or how that data was being used. Nor did Facebook
15 disclose that it had failed to notify the victims of the data breach and the user data accessed by
16 Kogan had been transmitted to other entities and persons who had not certified that the data had been
17 destroyed.

18 363. To the contrary, the following day, Facebook published an addendum to the article
19 asserting that: “The claim that this is a data breach is completely false.” Facebook stated that the
20 affected users had “chose to sign up to [Kogan’s] app,” “everyone involved gave their consent,” and
21 “[p]eople knowingly provided their information” to Kogan.³⁷⁶ In reality, only around 270,000 users
22 had provided consent – but over 87 million users had their data harvested and misused. The
23 addendum, published at 9:50 a.m. PDT, was plainly intended as a response to articles by the *The*
24 *New York Times* and *The Guardian* about the data breach, which had been published earlier the same
25 day.

26
27 ³⁷⁵ *Id.*

28 ³⁷⁶ *Id.*

1 367. On March 19, 2018, CNN reported that:³⁷⁹

2 The Cambridge Analytica scandal has done immense damage to the brand, sources
3 across the company believe. It will now take a Herculean effort to restore public
trust in Facebook’s commitment to privacy and data protection, they said.

4 No one has provided an adequate explanation for why Facebook did not disclose
5 Kogan’s violation to the more than 50 million users who were affected when the
company first learned about it in 2015.

6 368. Others agreed. On March 17, 2018 a prominent tech reporter wrote: “[T]he story here
7 isn’t how this data was used. . . . ***The problem here is how Facebook, the biggest social network,***
8 ***chose to stay silent and not inform the affected users.*** . . . [T]he problem is Facebook’s silence on
9 the matter until it was pushed by the whistleblower who made the details public. . . . In its press
10 release, Facebook blamed everything on how it was lied to by a researcher and takes no charge of its
11 policies that allowed such behavior or says anything about why the affected users weren’t
12 informed.”³⁸⁰

13 369. Similarly, on March 20, 2018, another tech reporter wrote: “This time around,
14 Facebook might not clamber out of the hot water so easily The revelation that Facebook data
15 on as many as 50 million users appears to have made its way into a political data operation with no
16 consent from users is Facebook’s burden to bear alone.”³⁸¹

17 370. Investors and stock analysts recognized that the disclosures and the firestorm of
18 criticism they engendered had fundamentally altered the value proposition for the Company. For
19 example, in explaining the removal of its Buy recommendation on the Company on March 20, 2018,
20 William O’Neill & Co. wrote:³⁸²

21 Facebook was aware of the privacy breach two years ago. This lack of disclosure
22 could be viewed as a violation of privacy laws in the U.K. and many U.S. states,
raising further questions

23
24 ³⁷⁹ Dylan Byers, *Facebook is facing an existential crisis*, CNN Business (Mar. 19, 2018).

25 ³⁸⁰ Rafia Shaikh, *50 Million Facebook Profiles Harvested Without User Consent – Data Monster
Chose NOT to Alert Victims & Is Trying to Threaten Reporters*, Wccftech (Mar. 17, 2018).

26 ³⁸¹ Tony Hatmaker, *Zuck and Sandberg go M.I.A. as Congress summons Facebook leadership by
27 name*, TechCrunch (Mar. 20, 2018).

28 ³⁸² Derek Higa, *Facebook, Inc CIA (FB)*, William O’Neill & Co. (Mar. 20, 2018).

1 Furthermore, the increased scrutiny adds to the criticism of Russian social media
2 influence in the 2016 election and will likely bring further backing for social media
regulation, which could add uncertainty to share performance.

3 A *Seeking Alpha* article similarly wrote on March 19, 2018:³⁸³

4 The importance of this incident cannot be overstated for Facebook on both the user
5 privacy front but also more importantly on Facebook’s business model front. . . . If
6 Cambridge Analytica was able to acquire information on tens of millions of
Facebook users so quickly and easily, and then keep the information for years
7 without Facebook suspecting otherwise, then that shows a serious flaw in Facebook’s
ability to keep exclusive control over its information.

8 Even analysts who remained bullish on the Company and believed Facebook would weather the
9 storm recognized the negative impact of the disclosures. As Piper Jaffray noted on March 21, 2018:
10 “there’s a lot of negative sentiment baked into Facebook after the revelation of the data extraction by
11 Cambridge Analytica and Facebook’s botched PR responses.” The report went on to warn: “This
12 situation could get worse if further data extractions are disclosed or if the FTC pursues a fine with
13 Facebook.”

14 371. Over the next several days, additional details emerged regarding the scope of the data
15 breach and defendants’ knowledge of the severity of the breach at the time it occurred, their failure
16 to act to constrain the harm to users privacy interests or to respond to the breach in the manner
17 described in their contemporaneous public statements, and their continuing efforts thereafter to
18 downplay or conceal the extent of the problems and the magnitude of the risks the Cambridge
Analytica data misuse continued to present to the Company’s business and reputation.

19 372. Amid these disclosures, several social media campaigns began to urge users to
20 disconnect from Facebook and delete the information they had posted there. On March 20, 2018,
21 Brian Acton, co-founder of WhatsApp, a \$19 billion Facebook acquisition, tweeted: “It is time.
22 #deletefacebook.”³⁸⁴ A *Business Insider* article similarly reported: “The hashtag #DeleteFacebook is
23

24
25
26 ³⁸³ Erich Reimner, *The Cambridge Analytica Mishap Is Serious For Facebook*, *Seeking Alpha* (Mar.
27 19, 2018).

28 ³⁸⁴ Brian Acton @brianacton, TWITTER (Mar. 20, 2018).

1 trending on Twitter. *People are furious, and they have good reason to be As a result, people*
 2 *are deleting their Facebook accounts en masse.*”³⁸⁵

3 373. The foregoing disclosures caused the price of Facebook stock to decline
 4 precipitously. Facebook shares fell nearly 7% on Monday, March 19, 2018 – the first trading day
 5 after the news broke – and fell an additional 2.5% the next trading day amid additional disclosures of
 6 the nature and extent of the risks that had been concealed from investors. As additional details of
 7 Facebook’s concealment were disclosed, and the negative news continued to mount, Facebook’s
 8 shares continued to decline. Within a week, Facebook’s stock was trading around \$150/share, a
 9 stunning drop of nearly 18% in value from its price (~\$185) just before news of the Cambridge
 10 Analytica scandal broke, reflecting an extraordinary loss of more than \$100 billion in market
 11 capitalization in just one week.

12 **1. Facebook’s Privacy Misconduct Sparked Numerous** 13 **Government Investigations**

14 374. Given the volume of leaked data and its detailed, personal nature, the number of
 15 people affected, and the politically contentious nature of the leaks, multiple government agencies
 16 launched investigations into Facebook’s actions.

17 375. On March 26, 2018, the FTC confirmed that it had launched an investigation into
 18 Facebook’s compliance with the 2012 Consent Decree, stating: “the FTC takes very seriously recent
 19 press reports raising substantial concerns about the privacy practices of Facebook.”³⁸⁶

20 376. On July 12, 2018, *The Wall Street Journal* reported that the SEC was investigating
 21 “whether Facebook Inc. adequately warned investors that developers and other third parties may
 22 have obtained users’ data without their permission or in violation of Facebook policies.”³⁸⁷ The

23 _____
 24 ³⁸⁵ Ben Gilbert, *#DeleteFacebook is trending: Here’s how to delete your Facebook account*,
 Business Insider (Mar. 20, 2018).

25 ³⁸⁶ Press Release, *Statement by the Acting Director of FTC’s Bureau of Consumer Protection*
 26 *Regarding Reported Concerns about Facebook Privacy Practices*, Federal Trade Commission (Mar.
 26, 2018).

27 ³⁸⁷ David Michaels and Georgia Wells, *SEC Probes Why Facebook Didn’t Warn Sooner on Privacy*
 28 *Lapse*, Wall St. J. (July 12, 2018).

1 Justice Department and the FBI also reportedly joined the government investigations into
2 Facebook’s privacy lapses in the wake of the Cambridge Analytica data breach.

3 377. In addition, and as discussed in greater detail below, numerous governments of other
4 countries began investigating defendants’ misuse of Facebook user information.

5 2. The U.K. Information Commissioner’s Office

6 378. On July 11, 2018, a United Kingdom government agency called the Information
7 Commissioner’s Office or “ICO” issued a report following its investigation into the way that
8 Facebook, Cambridge Analytica and others used individuals’ personal information in political
9 processes.³⁸⁸ The report states that in 2017,³⁸⁹ the ICO launched a formal investigation into the
10 misuse of personal information leading up to the “Brexit” vote in summer 2016. Over 40
11 investigators worked on the investigation along with experts. One key focus of the investigation is
12 the misuse of the same data that Cambridge Analytica applied in the U.S. presidential election.

13 379. According to the ICO’s report, its investigation in “the second half of 2017 was both
14 complex and wide ranging.”³⁹⁰ The report states that the investigation “involved meetings,
15 interviews and correspondence with over 30 organisations” that included “Facebook, Cambridge
16 Analytica and AggregateIQ (AIQ).”³⁹¹ The ICO report attaches a Notice of Intent to take regulatory
17 action Facebook for data breaches, and the notice states that the ICO *sent an investigation letter “to*
18 *the Facebook companies on 23 August 2017.*”³⁹² The ICO made iterative requests after that time.
19 The ICO confirms that a “key strand” of its investigation focused on the Cambridge Analytica data
20 leak because the leaked data also included “1 million” users in the U.K..³⁹³

21
22 ³⁸⁸ ICO Report.

23 ³⁸⁹ *Id.* at 6.

24 ³⁹⁰ *Id.* at 9.

25 ³⁹¹ *Id.*

26 ³⁹² *Data Protection Act 1998, Supervisory Powers of the Information Commissioner, Notice of*
27 *Intent*, Information Commissioner’s Office (June 19, 2018) at 7 (“ICO Notice”).

28 ³⁹³ ICO Report at 8.

1 380. The ICO explained that it intended to impose a penalty on Facebook. The penalty
2 arose out of the “very serious” data incident involving Facebook’s failure to take appropriate
3 technical and organizational measures against “unauthorized or unlawful processing of personal
4 data” in violation of its statutory obligations, as the ICO wrote.³⁹⁴ These violations stemmed from
5 Facebook’s failure to protect the privacy of its users’ data that Cambridge Analytica and related
6 companies exploited in both the U.K. “Brexit” election and the U.S. presidential election. The ICO
7 Notice of Intent states that the Facebook’s violations were serious because they affected a “very
8 large number of individuals” and a “very substantial volume of personal data” and involved uses that
9 were beyond reasonable expectations thereby causing the victims distress.³⁹⁵

10 381. The ICO’s investigation also demonstrated that Facebook knew or should have
11 known about the Cambridge Analytica data leak and misuse. The ICO wrote that “the Facebook
12 Companies *knew or ought reasonably to have known* that there was a risk that the contravention
13 would (a) occur, *and* (b) be of a kind likely to cause substantial distress.”³⁹⁶ The ICO further wrote
14 that Facebook “failed to take reasonable steps to prevent such contravention” in that Facebook is a
15 large and experienced data collector and “*should have been aware of the risks.*”³⁹⁷ And the ICO
16 that Facebook “had ample opportunity over a long period of time to implement appropriate technical
17 . . . measures” to prevent the data violations “but failed to do so.”³⁹⁸ The ICO did act on its intent to
18 penalize Facebook and, as *CNBC* reported on July 11, 2018, the ICO was “hitting Facebook with the
19 maximum possible fine it can impose.”³⁹⁹ On October 24, 2018, the ICO imposed its maximum
20 penalty of £500,000.

21
22 ³⁹⁴ ICO Notice at 2-3.

23 ³⁹⁵ *Id.* at 17.

24 ³⁹⁶ *Id.* at 18.

25 ³⁹⁷ *Id.*

26 ³⁹⁸ *Id.*

27 ³⁹⁹ Ryan Brown, *Facebook faces UK fine of around \$660,000 after data scandal found to be illegal*,
28 *CNBC* (July 11, 2018).

1 **3. Defendants Admit Fault for the Cambridge Analytica Privacy**
 2 **Failure**

3 382. On March 21, 2018, defendants broke their silence as Zuckerberg and Sandberg made
 4 a number of statements in which they conceded that they had known that the data of millions of its
 5 users had been harvested and used without consent but had done nothing. In a post to his personal
 6 Facebook page, Zuckerberg took “responsibil[ity] for what happens on our platform” and admitted
 7 that the Company had “made mistakes,” and that the Cambridge Analytica issue reflected “a breach
 8 of trust between Facebook and the people who share their data with us and expect us to protect it.
 9 We need to fix that.”⁴⁰⁰ Sandberg re-posted Zuckerberg’s post on her own Facebook page, adding:
 10 “We know that this was a major violation of people’s trust, and I deeply regret that we didn’t do
 11 enough to deal with it. We have a responsibility to protect your data.”⁴⁰¹

12 383. Defendants’ statements were not mere expressions of regret, they were outright
 13 admissions of “responsibility” for “breach[es]” and “violations” of user “trust” and
 14 acknowledgments that defendants “didn’t do enough” to respect user privacy or provide users with
 15 the promised control over their data.

16 384. In an interview with *Wired* the same day, Zuckerberg similarly admitted that the
 17 *Guardian* and *Times* reports were credible and admitted that Cambridge Analytica was not the only
 18 third party with which Kogan had shared “a lot” of users’ data, that Facebook had not audited
 19 Cambridge Analytica to verify that user data had been deleted, that the Company might have to do a
 20 “full forensic audit” of every one of its developers operating before it could determine the extent of
 21 the data breach.⁴⁰²

22 385. The transcript of the interview published by *Wired* stated in relevant part:⁴⁰³

23 _____
 24 ⁴⁰⁰ Mark Zuckerberg, Facebook (Mar. 21, 2018).

25 ⁴⁰¹ Sheryl Sandberg, Facebook (Mar. 21, 2018).

26 ⁴⁰² Nicholas Thompson, *Mark Zuckerberg Talks to Wired About Facebook’s Privacy Problem*,
Wired (Mar. 21, 2018).

27 ⁴⁰³ Nicholas Thompson, *Mark Zuckerberg Talks to Wired About Facebook’s Privacy Problem*,
 28 *Wired* (Mar. 21, 2018).

1 Thompson: You learned about the Cambridge Analytica breach in late 2015, and you
2 got them to sign a legal document saying the Facebook data they had
3 misappropriated had been deleted. But in the two years since, there were all kinds of
stories in the press that could have made one doubt and mistrust them. Why didn't
you dig deeper to see if they had misused Facebook data?

4 Zuckerberg: So in 2015, when we heard from journalists at The Guardian that
5 Aleksandr Kogan seemed to have shared data with Cambridge Analytica and a few
6 other parties, the immediate actions that we took were to ban Kogan's app and to
7 demand a legal certification from Kogan and all the other folks who he shared it
with. We got those certifications, and Cambridge Analytica had actually told us that
they actually hadn't received raw Facebook data at all. It was some kind of
derivative data, but they had deleted it and weren't [making] any use of it.

8 In retrospect, though, I think that what you're pointing out here is one of the biggest
9 mistakes that we made. And that's why the first action that we now need to go take
10 is to not just rely on certifications that we've gotten from developers, but [we]
11 actually need to go and do a full investigation of every single app that was operating
before we had the more restrictive platform policies – that had access to a lot of data
– and for any app that has any suspicious activity, we're going to go in and do a full
forensic audit.

12 * * *

13 Thompson: How confident are you that Facebook data didn't get into the hands of
14 Russian operatives – into the Internet Research Agency, or even into other groups
that we may not have found yet?

15 Zuckerberg: I can't really say that. I hope that we will know that more certainly after
16 we do an audit. You know, for what it's worth on this, the report in 2015 was that
Kogan had shared data with Cambridge Analytica and others.

17 386. In an interview with *Recode* on March 21, 2018, Zuckerberg revealed that Facebook
18 needed to investigate tens of thousands, of apps that may have improperly shared data, while
19 conceding that the Company might never be able to determine what or how much user data had been
20 sold to or shared with third parties.⁴⁰⁴ Ime Archibong, Facebook's Vice President of Product
21 Partnerships, warned that this number may increase as the investigation continues to "find all the
22 apps that may have misused people's Facebook data."⁴⁰⁵

23
24
25

26 ⁴⁰⁴ Kara Swisher & Kurt Wagner, *Mark Zuckerberg says he's 'open' to testifying to Congress, fixes
will cost 'many millions' and he 'feels really bad'*, *Recode* (Mar. 21, 2018).

27 ⁴⁰⁵ Ime Archibong, *An Update on Our App Investigation and Audit*, Facebook Newsroom (May 14,
28 2018).

1 387. In the *Recode* interview, Zuckerberg repeated the claim that Cambridge Analytica had
 2 said it “never had the data and deleted what derivative data” it had,⁴⁰⁶ while admitting that Facebook
 3 had done nothing to verify those assertions. While attempting to justify the Company’s actions as
 4 reasonable at the time Zuckerberg admitted “in retrospect it was clearly a mistake. I’m explaining to
 5 you the situation at the time, and the actions that we took, but *I’m not trying to say it was the right*
 6 *thing to do*. I think given what we know now, we clearly should have followed up.”⁴⁰⁷ *Recode* itself
 7 was unimpressed by Zuckerberg’s attempts to explain away Facebook’s response to the data breach,
 8 noting in a companion article about the interview:⁴⁰⁸

9 But Zuckerberg did not give any details about why the company did not do those
 10 checks, or about why broader monitoring of third-party developers – who in some
 cases were given vast troves of user information – was so shoddy.

11 He said Facebook is now trying to go back and check who has user data, although
 12 it’s essentially an effort to put the genie back into the bottle. When asked if he could
 recover some of the data now, Zuckerberg admitted, “not always.”

13 388. On March 25, 2018, Facebook also took out full-page advertisements in several U.S.
 14 and U.K. newspapers, including *The New York Times*, *The Washington Post*, *The Wall Street*
 15 *Journal*, *The Observer*, *The Sunday Times*, *Sunday Mirror*, *Sunday Express* and *Sunday Telegraph*.
 16 These ads were signed by Zuckerberg, who stated with direct reference to the Cambridge Analytica
 17 scandal: “This was a breach of trust, and I’m sorry we didn’t do more at the time. We’re now taking
 18 steps to ensure this doesn’t happen again.” Zuckerberg further stated: “I promise to do better for
 19 you.”⁴⁰⁹

20 389. On April 4, 2018, in a Q&A session with members of the press, Zuckerberg admitted
 21 with respect to the Cambridge Analytica scandal, “it’s clear now that we didn’t do enough . . . [w]e
 22 didn’t take a broad enough view of what our responsibility is, and that was a huge mistake. It was

23 ⁴⁰⁶ Kara Swisher & Kurt Wagner, *Here’s the transcript of Recode’s interview with Facebook CEO*
 24 *Mark Zuckerberg about the Cambridge Analytica controversy and more*, *Recode* (Mar. 22, 2018).

25 ⁴⁰⁷ *Id.*

26 ⁴⁰⁸ Kara Swisher & Kurt Wagner, *Mark Zuckerberg says he’s ‘open’ to testifying to Congress, fixes*
will cost ‘many millions’ and he ‘feels really bad’, *Recode* (Mar. 21, 2018).

27 ⁴⁰⁹ Sheena McKenzie, *Facebook’s Mark Zuckerberg says sorry in full-page newspaper ads*, *CNN*
 28 (Mar. 25, 2018).

1 my mistake.”⁴¹⁰ Zuckerberg elaborated by acknowledging that “it’s not enough to have rules
2 requiring they [*i.e.*, app developers] protect information, it’s not enough to believe them when they
3 tell us they’re protecting information – we actually have to ensure that everyone in our ecosystem
4 protects people’s information.”

5 390. In an April 5, 2018 interview with NPR, Sandberg acknowledged that Facebook did
6 not previously have sufficient privacy controls in place, and indicated awareness that Facebook was
7 not in compliance with the FTC Consent Decree. Specifically, Sandberg stated: “[W]e’re in constant
8 conversation with the FTC, and that consent decree was important, and we’ve taken every step we
9 know how to make sure we’re in accordance with it. But the bigger answer is, *should we have taken*
10 *these steps years ago anyway? And the answer to that is yes. Like a very clear, a very firm, yes.*”

11 391. Defendants’ orchestrated apology tour had its intended effect. Indeed, analysts
12 responded by telling investors to expect only a relatively modest and short term impact from the
13 revelations about Facebook’s failure to protect privacy or provide users control over their data.⁴¹¹

14 **N. Defendants Recklessly and Falsely Assured Investors that the**
15 **Cambridge Analytica Scandal Had Not Affected Facebook’s User**
16 **Engagement or Financial Results, Reinflating Facebook’s Stock Price**

17 392. As the first quarter drew to a close, investors and market analysts were justifiably
18 concerned over the impact that Facebook’s past misrepresentations concerning the Cambridge
19 Analytica data breach and the use of its platform to further election interference and other political
20 activities by Russia would have on the Company’s users and advertisers. The impending launch of
21 the General Data Protection Regulation (“GDPR”) in the E.U. added to these concerns.

22 ⁴¹⁰ *Hard Questions: Q&A With Mark Zuckerberg on Protecting People’s Information*, Facebook
23 Newsroom (Apr. 4, 2018).

24 ⁴¹¹ *See, e.g.*, Mark S.F. Mahaney, *Defending Facebook*, RBC Capital Markets (Mar. 21, 2018)
25 (maintaining outperform rating and \$250 price target: “we view [Zuckerberg’s] statement . . . as
26 delayed – but appropriate – responses and steps by Facebook”); Brian Nowak, C.F.A., *Our Thoughts*
27 *on FB’s Public Statement*, Morgan Stanley (Mar. 21, 2018) (maintaining overweight and \$230 price
28 target: “We look to these and further forthcoming data safeguards (expected in coming days) to
reassure users that FB is acting more proactively and decisively to protect their data”); Ronald V.
Josey, *Our Thoughts on Facebook’s Privacy and Data Issues*, JMP (Mar. 21, 2018) (“we expect this
issue to be an overhang over the short-to-medium term, although we also do not believe these issues
have impacted usage or advertiser demand”); Ken Sena, *FB: It’s Not You, It’s Us*, Wells Fargo
Securities (Mar. 21, 2018) (“Constructive First Steps, Continue to View Business Impact as Likely
Minimal”).

1 393. Nevertheless, analysts were cautiously optimistic that Facebook’s promises of quick
2 and decisive action to combat the threats would help it rebound quickly from the negative
3 disclosures. As a Morningstar analyst wrote on March 26, 2018:⁴¹²

4 Facebook’s latest data breach issue, which surfaced 11 days ago and involved
5 Cambridge Analytica, was followed on March 25 by the Federal Trade
6 Commission’s announcement of an investigation into the company’s abilities and
7 willingness to protect user information. While this recent development may have
8 brought forth further doubts regarding Facebook and its user growth and
9 engagement, along with more demand for a GDPR type of regulation in the U.S., we
10 remain confident that the firm is more likely to endure the short-term impact of the
11 data breach issue and at this point do not expect a significant long-term negative
12 effect on Facebook’s platform and operations.

13 Other analysts made similar comments.⁴¹³

14 **1. Defendants Tout Facebook’s 1Q18 Results as Demonstrating**
15 **that Users Were Unconcerned with the Cambridge Analytica**
16 **Scandal**

17 394. When Facebook reported its first quarter results on April 25, 2018, investors were
18 buoyed by revenues, earnings and DAU/MAU metrics that were all in line with estimates. Sandberg
19 told investors “It was a great quarter for our business. Q1 ad revenue grew 50% year-over-year.
20 Mobile ad revenue was \$10.7 billion, up 60% from last year and contributed approximately 91% of
21 total ad revenue. Revenue growth was broad-based across regions, marketer segments and
22 verticals.”

23 395. Sandberg further assured the market that there would not be a significant business
24 impact from the March revelations regarding Cambridge Analytica, stating “we think the
25 investigatory work we’re doing into APIs is very important and we don’t expect it have an impact on
26

27 ⁴¹² Ali Magharabi, *Many Downside Scenarios Are Priced In, Facebook Shares are now attractive*,
28 Morningstar (Mar. 26, 2018).

⁴¹³ See, e.g., Lloyd Walmsley, *Attractive long-term but 1Q brings risks*, Deutsche Bank (Apr. 18,
2018) (“1Q likely to be heavily focused on fallout from CA and upcoming GDPR”); Youseff Squali,
21 *1Q18 Likely Strong Despite CA Mishap; Investments to Pressure Margins S/M Term*, SunTrust
22 Robinson Humphrey (Apr. 20, 2018) (“we believe the very recent negative publicity may have
23 removed ‘upside’ ad revenue opportunities and likely added uncertainty around user engagement and
24 growth”); Mark S.F. Mahaney, *Facebook, Inc. Q1 Preview & Cheat Sheet*, RBC Capital Markets
25 (Apr. 23, 2018) (“The almost unanimous opinion from the executives we talked with at ad
26 technology/consulting companies . . . was that the recent controversies would have no material
27 impact on the relevance and attractiveness and importance of Facebook as a marketing platform.
28 Facebook has been, is, and will remain for the foreseeable future a “must buy” for most consumer-
oriented marketers.”).

1 revenue.” Zuckerberg commented that “Despite the important issues that we faced . . . our
2 community and our business continued to grow really well,” while Wehner assured investors that
3 Facebook was “committed to transparency.”

4 396. As *The New York Times* reported on April 25, 2018:⁴¹⁴

5 Despite it all, the Facebook juggernaut marches on.

6 The social network is undergoing its worst crisis in its 14-year history as it faces a
7 torrent of criticism about its privacy practices and the way it handles user data.

8 But on Wednesday, Facebook showed that – as with past scandals – the controversy
is so far doing little to hurt its bottom line.

9 The results sent Facebook’s shares up more than 7 percent in aftermarket trading on
10 Wednesday.

11 397. The Company’s 1Q18 results together with management’s assurances on the 1Q18
12 conference call led many analysts to conclude that the disclosures concerning Cambridge Analytica
13 had not impacted user’s engagement with the platform.⁴¹⁵

14 398. Bolstered by the 1Q18 results and defendants assurances of the strength of
15 Facebook’s business in the face of the firestorm of criticism it was facing over its user data and
16 privacy practices, the Company’s stock price began to recover. The price of Facebook’s share rose
17 more than 9% immediately after 1Q18 results were released, and by late May the shares had
18 recovered to the levels they were trading at before *The Guardian* and *The New York Times* articles
19 about the Cambridge Analytica data breach broke.

20 399. Thereafter, defendants continued to tout the 1Q18 results as a sign that the Company
21 had weathered the storm, while assuring investors that there was no reason to be concerned that the

22
23 ⁴¹⁴ Sheera Frenkel & Kevin Roose, *Facebook’s Privacy Scandal Appears to Have Little Effect on Its*
24 *Bottom Line*, N.Y. Times (Apr. 25, 2018).

25 ⁴¹⁵ See, e.g., Jason Helfstein, *Strong 1Q Suggests Cambridge Analytica Soon to Be a Distant*
26 *Memory; Maintain Outperform, \$225 PT*, Oppenheimer (Apr. 25, 2018) (“Most positive takeaway
27 from the recent Cambridge Analytica (CA) debacle were nil and, **alongside mgmt commentary**
28 **downplaying GDPR impact**, will likely accelerate the fading relevance of these topics from investor
focus.”).

1 past user privacy scandals or new privacy regulations would have a negative impact on Facebook's
2 business.

3 400. In April 2018, Facebook shareholders made various proposals in response to the
4 Cambridge Analytica scandal. For example, shareholders proposed that "Facebook's Board issue a
5 report discussing the merits of establishing a Risk Oversight Board Committee."⁴¹⁶

6 401. In support of this proposal, on April 17, 2018, Facebook investors noted the fact that
7 the Company faced "significant financial, reputational and regulatory risk" from events like "The
8 Cambridge Analytica scandal and the misuse of data to influence elections around the world," which
9 "cost Facebook investors \$90 billion in market value between March 16th and March 17th."⁴¹⁷
10 Facebook shareholders also proposed that "Facebook issue a report to shareholders . . . [*inter alia*]
11 assessing the risks posed by content management controversies (including election interference . . .)
12 to the company's finances operations and reputation."⁴¹⁸ In support of this proposal, on May 17,
13 2018, Facebook investors, including the Illinois State Treasurer explained that "Facebook's
14 controversies have a direct impact on the Company's market value" including because "[f]ollowing
15 the Cambridge Analytica disclosures, Facebook shares lost approximately \$100 billion in market
16 value."⁴¹⁹ Defendants opposed both stockholder proposals, assuring investors that Facebook's risk
17 oversight was fine and that there was no need for the requested report.

18 402. During Facebook's annual meeting on May 31, 2018, Natasha Lamb, managing
19 partner of activist investor Arjuna Capital, said:⁴²⁰

20 _____
21 ⁴¹⁶ Facebook's Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 at
22 51 ("Proposal Four: Stockholder Proposal Regarding A Risk Oversight Committee") (Apr. 13,
2018).

23 ⁴¹⁷ Letter from Jonas Kron, Snr. Vice President, Trillium Asset Management to Facebook
Shareholders (Apr. 17, 2018).

24 ⁴¹⁸ Facebook's Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 at
25 55 ("Proposal Six: Stockholder Proposal Regarding A Content Governance Report") (Apr. 13,
2018).

26 ⁴¹⁹ Letter from Natasha Lamb, Managing Partner, Arjuna Capital and Michael W. Frerichs, Illinois
27 State Treasurer (and others) to Facebook Shareholders (May 17, 2018).

28 ⁴²⁰ Facebook, Inc. Annual Shareholders Meeting Tr. at 6 (May 31, 2018).

1 From political subterfuge, fake news, hate speech and sexual harassment, it is clear
2 that content that violates Facebook’s own terms of service poses a risk to the
3 Company’s market value and brand. Last year, at this very meeting, we highlighted
4 the risk posed by fake news propagated over the platform. And while our board
5 opposed reporting, we learned [six] months later and only through congressional
6 testimony that 126 million Americans may have viewed Russian propaganda prior to
7 the 2016 U.S. presidential election. Four months later, we learned that 87 million
8 Americans data was compromised by Cambridge Analytica with the intent to
9 manipulate users for political gain. In the wake of that scandal, Facebook’s market
10 value dropped nearly \$100 billion. And while today’s proposal is broader, I’m
11 surprised to see a similar reaction from our board, a recommendation to vote against
12 greater transparency and accountability to investors. Fines and regulation by
13 governments, lost advertising revenue and a soured brand may further impact
14 investment returns. In fact, users may leave the social media platform if they feel its
15 content lacked integrity.

16 403. Following comments like these, Zuckerberg took to the stage to tout the Company’s
17 1Q18 results (“that shows a lot of good continued momentum” in the business) and assure investors
18 that users were not changing their behavior in the wake of the scandals, and were still opting in to
19 share their data with Facebook (the “vast majority of people say yes, they want that data used”).⁴²¹
20 The shareholders proposals were defeated.

2. **Zuckerberg Falsely Assures Investors that European Privacy Regulations Are Not Impacting the Business**

21 404. Zuckerberg’s assurance that the “vast majority” of users were opting into data sharing
22 was particularly important to investors, as it came just after the launch of the General Data
23 Protection Regulation (“GDPR”) in the E.U. on May 25, 2018. The GDPR is a broad set of
24 regulations governing the collection and use of personal data that is designed to protect the privacy
25 of EU citizens. Significantly, and in addition to a host of disclosure and control requirements, the
26 GDPR requires corporations to make their data collection and sharing policies opt-in, rather than
27 opt-out, and limits the breadth and type of data collection and sharing by companies like Facebook.

28 405. The GDPR imposes several requirements on all entities (including Facebook) that
process and target personal data from individuals located in the European Union. At bottom, the
GDPR is designed to protect privacy by giving people control over their personal data. For example,
the GDPR requires, among other things, that the processor (*e.g.*, Facebook) disclose any data
collection, disclose whether the data is being shared with any third parties, and to delete that data

⁴²¹ *Id.* at 8, 16.

1 under certain circumstances. The GDPR also requires that any entities notify individuals in the
2 European Union whose data may have been breached, compromised, or deleted. The GDPR also
3 imposes significant reporting and internal control requirements, mandating companies like Facebook
4 to appoint a data collection officer and to report its compliance to the GDPR's provisions to
5 independent public authorities appointed by European Union member states. The GDPR further
6 requires the processor to obtain a user's affirmative consent before using and distributing that user's
7 personal data, as well as limiting the breadth of consent given.

8 406. The GDPR was adopted by the European Council and Parliament on April 14, 2016.
9 All companies operating within the European Union had to comply with the GDPR by May 25, 2018
10 or face stiff penalties.

11 407. Defendants used the years between its passage and implementation to reassure
12 investors that the GDPR would have little to no impact on Facebook's business. During quarterly
13 conference calls and in investor presentations starting in mid-2017 and continuing into 2018,
14 defendants used updates to their Terms of Service and Data Policy to claim that Facebook had
15 already largely given its users the privacy controls necessary to comply with GDPR. In or around
16 August 2017, Facebook began implementing changes to its products, including the Platform, because
17 of the GDPR.⁴²² According to a Facebook representative, Facebook had "assembled the largest
18 cross-functional team in the history of the Facebook family of companies," to implement these
19 changes, including teams to conduct legal, product and engineering assessments on the GDPR's
20 impact.⁴²³ Facebook also created a "What is the [GDPR]?"⁴²⁴ page on its website touting the steps
21 Facebook had already taken to give users' control of their data in compliance with the GDPR, and
22 which claimed that even under GDPR "Businesses that advertise with the Facebook Companies can
23 continue to use Facebook platforms and solutions in the same way they do today."⁴²⁵

24 _____
25 ⁴²² Aliya Ram, *Tech sector struggles to prepare for new EU data protection laws*, Fin. Times (Aug.
29, 2017).

26 ⁴²³ *Id.*

27 ⁴²⁴ *What is the General Data Protection Regulation (GDPR)?*, Facebook Business.

28 ⁴²⁵ *Id.*

1 408. During this time, defendants continually reassured investors that the GDPR would not
 2 have a material impact on Facebook’s business. For example, in an interview published by Axios on
 3 October 12, 2017, Sandberg claimed that Facebook was already adhering to GDPR requirements,
 4 stating “Europe has passed a single privacy law *and we are adhering to that* . . . privacy is
 5 something we take really seriously.”⁴²⁶ During the Company’s 3Q17 earnings call on November 1,
 6 2017, Sandberg emphasized the point, claiming “On GDPR, the Facebook family of apps *already*
 7 *applies* the core principles in the framework because we built our services around transparency and
 8 control.” As noted below, Sandberg repeated similar statements during the Company’s January 31,
 9 2018 earnings call, stating that “the Facebook family of apps already applies the core principles in
 10 the GDPR framework, which are transparency and control.”

11 3. **Defendants Continued to Falsely Downplay Reports of Privacy** 12 **Risks Ahead of Facebook’s 2Q18 Earnings Release**

13 409. While the market was reassured by defendants’ comments, questions surrounding
 14 Facebook’s privacy practices continued to swirl. On June 8, 2018, Facebook responded to inquiries
 15 from numerous journalists seeking a response to *The New York Times*’ and *The Wall Street Journal*’s
 16 reporting about whitelisting and other unauthorized sharing of users’ data. Facebook issued the
 17 same statement to multiple outlets in response, which read:⁴²⁷

18 For the most part this is a rehash of last week-end’s New York Times story – namely
 19 that we built a set of device integrated APIs used by around 60 companies to create
 20 Facebook-like experiences. In April 2018, we announced that we were winding
 21 these down. In terms of our Platform APIs, the Journal has confused two points. In
 2014, all developers were given a year to switch to the new, more restricted version
 of the API. . . . Per our testimony to Congress ‘We required developers to get
 approval from Facebook before they could request any data beyond a user’s public
 profile, friend list, and email address.’

22 410. Journalists were skeptical of this response. *Axios*, after reviewing a timeline of
 23 Facebook’s half disclosures, concluded that “Each new admission – even of the kinds of small bugs
 24
 25
 26

27 ⁴²⁶ Mike Allen, *Exclusive interview with Facebook’s Sheryl Sandberg*, Axios (Oct. 12, 2017).

28 ⁴²⁷ Jack Morse, *Another day, another Facebook privacy scandal*, Mashable (June 8, 2018).

1 and problems that are common across the industry – reinforces a view in Washington that Facebook
2 has been unwilling to come fully clean.”⁴²⁸

3 411. On June 27, 2018, *The Wall Street Journal* reported that Facebook could not track
4 where the data it had improperly disseminated – not just to Cambridge Analytica, but to developers
5 and others writ large – had ended up.⁴²⁹

6 412. On June 29, 2018, Facebook responded in writing to outstanding questions put on the
7 record to Zuckerberg by the members of the U.S. House of Representatives on April 11, 2018. The
8 responses, which spanned more than 700 pages, stated that Apple, Amazon and the other device
9 makers described herein were not the only developers that received special or extended access to
10 users’ friends data. Facebook also conceded that “early records may have been deleted from our
11 system,” and that “it is possible” that Facebook had failed to identify other developers who had also
12 received extended access to users’ friends’ data.⁴³⁰

13 413. On July 1, 2018, after reviewing Facebook’s responses to written questions from
14 members of Congress, *The Wall Street Journal*, based in part on its earlier investigations in
15 combination with a review of Facebook’s answers and earlier discussions, concluded that
16 Facebook’s responses contradicted Zuckerberg’s previous statements to Congress:⁴³¹

17 Facebook . . . disclosed it gave dozens of companies special access to user data,
18 detailing for the first time a spate of deals that *contrasted* with the social network’s
previous public statements that it restricted personal information to outsiders in 2015.

19 * * *

20 The disclosure follows a Journal article in June that reported Facebook struck
21 customized data-sharing deals that gave select companies such as Nissan Motor Co.
22 access to user records for their apps well after the point in 2015 when it said it walled
off that information. Nissan is listed in Friday’s document.

23 ⁴²⁸ David McCabe, *The big picture: Facebook’s year of missteps*, Axios (June 9, 2018).

24 ⁴²⁹ Deepa Seetharaman, *Facebook’s Latest Problem: It Can’t Track Where Much of the Data Went*,
25 Wall St. J. (June 27, 2018).

26 ⁴³⁰ Letter from Facebook, Inc. to Chairman Greg Walden, Ranking Member Frank Pallone, U.S.
House of Representatives, Energy and Commerce Committee at 96 (June 29, 2018).

27 ⁴³¹ Georgia Wells, *Facebook Reveals Apps, Others That Got Special Access to User Data*, Wall St.
28 J. (July 1, 2018).

1 414. On July 2, 2018, *The Washington Post* reported that multiple federal agencies,
2 including the FBI, the SEC, the FTC and the DOJ, were investigating Facebook related to the data-
3 sharing scandal involving Cambridge Analytica: “The questioning from federal investigators centers
4 on what Facebook knew three years ago and why the company [did not] reveal it at the time to its
5 users or investors, as well as any discrepancies in more recent accounts, among other issues.”⁴³²
6 Facebook confirmed the investigation and said it was cooperating with authorities.

7 415. On July 11, 2018, CNN revealed that Facebook had given a “Russian internet
8 company with links to the Kremlin”:⁴³³

9 [The right] to collect data on unknowing users of the social network after a policy
10 change supposedly stopped such collection. Facebook told CNN on Tuesday that
11 apps developed by the Russian technology conglomerate Mail.Ru Group, were being
12 looked at as part of the company’s wider investigation into the misuse of Facebook
13 user data in light of the Cambridge Analytica scandal.

14 416. Mail.Ru Group was one of the developers granted extended access to users’ friends’
15 data as identified in the June 29, 2018 submission Facebook made to Congress, highlighting the risk
16 in granting such extensions.

17 **O. Facebook’s 2Q18 Financial Results Reveal the Huge Impact the Data
18 Privacy Scandal Had on Facebook’s User Engagement, Advertising
19 Revenues and Earnings, Leading to a Stunning \$100 Billion Loss in
20 Facebook’s Value**

21 417. Heading into Facebook’s 2Q18 earnings call, the Company’s share price was
22 hovering around \$210 and many investors and analysts, buoyed by the Company’s 1Q18 earnings
23 report and defendants’ assurances regarding the continued strength of the business in the wake of the
24 scandal, remained strongly bullish on the Company.⁴³⁴

25 _____
26 ⁴³² Craig Timberg, Elizabeth Dwoskin, et al., *Facebook’s disclosures under scrutiny as federal*
27 *agencies join probe of tech giant’s role in sharing data with Cambridge Analytica*, Wash. Post (July
28 2, 2018).

⁴³³ Donie O’Sullivan, Drew Griffin & Curt Devine, *Russian company had access to Facebook user*
data through apps, CNN Business (July 11, 2018).

⁴³⁴ See, e.g., Michael J. Olsen, *Core Strength & LT “Call Options” Override Short-Term Concerns;*
OW & PT to \$250, PiperJaffray (July 20, 2018) (“Regulatory Concerns Unlikely to Change the Big
Picture”); Youseff Squali, *Strong 2Q18 Expected Despite Head Winds; Maintain Buy*, SunTrust
Robinson Humphrey (July 20, 2018) (“Despite all the negative headlines, we believe ad revenue
should continue to drive very healthy growth”); Michael Pachter, *Expect Another Strong Quarter*
Despite Negative Press and Privacy Overhang, Wedbush (July 20, 2018) (“Notwithstanding
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1 418. Investors and analysts were therefore stunned when Facebook issued its second
2 quarter earnings on July 25, 2018, reporting flat to declining user growth, lower than expected
3 revenues and earnings, contracting gross margins, and reduced guidance going forward, all as a
4 substantial result of the fallout of the disclosures concerning Facebook's privacy practices, including
5 its misrepresentations about its efforts to prevent and address events like the Cambridge Analytica
6 data breach or the Russian attempts to influence election results in the U.S.

7 419. The Company reported having 1.47 billion average daily active users in June and
8 quarterly revenues of \$13.2 billion, both of which were below average analyst estimates as compiled
9 by *Bloomberg*. The revenue miss was Facebook's first since 2015. In addition the company
10 reported that, after years of growth, its active user base (MAU and DAU) had declined in Europe,
11 was flat in the U.S. and Canada, and was decelerating worldwide.

12 420. Facebook's failure to make any attempt to determine what data had been
13 compromised, to verify that the data had been destroyed, or to notify affected users that their data
14 had been compromised, was directly contrary to the repeated representations defendants had made
15 about Facebook's response to the Cambridge Analytica data breach and its commitment to and the
16 resources it had committed to protecting user privacy. The outrage sparked by the disclosure of
17 Facebook's privacy practices and prior misrepresentations directly and proximately led users to
18 disconnect from or reduce their use of Facebook's platform, and to take advantage of new tools and
19 regulations giving them more control over the use of their data, including the right to opt out of
20 tracking or sharing settings that were critical to the effectiveness of Facebook's targeted advertising
21 programs.

22 421. It also caused advertisers to reduce or eliminate their spending on the platform,
23 sparked numerous government investigations, and led to dramatic increases in spending on
24 regulatory compliance and safety programs needed to correct the conditions that had led to the

25
26 heightened scrutiny and elevated legislative and regulatory risk, we expect Facebook to weather the
27 controversy surrounding its Cambridge Analytica data breach and the implementation of GDPR in
28 Europe."); Rob Sanderson, *Q2 Preview: Expecting Revenue Growth Upside, Remains a Top Pick*,
MKM Partners (July 20, 2018) (Buy rating with \$255 price target); Mark S.F. Mahaney, *Q2 Preview
& Cheat Sheet*, RBC Capital Markets (July 22, 2018) (outperform rating with \$250 price target).

1 Cambridge Analytica data breach and permitted Russian agents to take advantage of Facebook’s lax
2 security measures to attempt to influence U.S. election results. All of these factors, individually and
3 in combination, were the cause of the disappointing 2Q18 earnings report and reduced 2H18
4 guidance and of the resultant decline in the price of Facebook common stock.

5 422. During the 2Q18 conference call on July 25, 2018, Wehner told investors to expect
6 revenue growth rates to decelerate in the second half of the year “by high single digit percentages
7 from prior quarters sequentially.” Wehner said that one of the driving factors in the Company’s
8 declining revenue growth was that users were sharing less data with the Company and advertisers
9 were reducing their spending on the platform in the wake of the privacy disclosures:⁴³⁵

10 In terms of what is driving the deceleration, . . . it’s a combination of factors. . . .
11 And then finally, we’re giving people who use the . . . services more choice around
12 privacy. And that’s coming both in terms of impacts that could be ongoing from
things like GDPR as well as other product options that we’re providing that could
have an impact on revenue growth.

13 423. As Wehner explained, users exercising their right to opt out of data sharing under the
14 new European regulations, reduced ad spending based on less reliance on Facebook’s data to support
15 targeted advertising, and new product features that would give users even more control over data
16 sharing and content viewing in the wake of the Cambridge Analytica and Russian interference
17 investigations all contributed to driving the lowered growth estimates:⁴³⁶

18 We do think that there will be some modest impact [from GDPR]. And I don’t want
19 to overplay these factors, but you’ve got a couple things going on. You’ve got the
20 impact of the opt-outs. And while we’re very pleased with the vast majority of
21 people opting into the third-party data use, some did not. So that’ll [sic] have a small
22 impact on revenue growth. And then we’re also seeing some impact from how
23 advertisers are using their own data for targeting, so again, that’ll [sic] have a modest
24 impact on growth. And then in addition, we’re continuing to focus our product
25 development around putting privacy first, and that’s going to, we believe, have some
26 impact on revenue growth. So it’s really a combination of kind of how we’re
27 approaching privacy as well as GDPR and the like. So I think all of those factors
28 together are one of the factors that we’re talking about

24 424. Market reaction to the Company’s 2Q18 earnings report and conference call was
25 swift and severe, causing the price of Facebook’s common stock to drop by nearly 19% on July 26,

27 ⁴³⁵ Q2 2018 Facebook, Inc., Earnings Call Tr. at 9-10 (July 25, 2018).

28 ⁴³⁶ *Id.* at 13.

1 2018, another staggering loss of \$120 billion in market capitalization that was the largest such one-
2 day drop in U.S. history.

3 425. In addition, the quarterly results reflected – for the first time – the economic impact of
4 the damage caused to the Company’s reputation by the disclosure of its past misrepresentations of
5 the risks arising from the Cambridge Analytica data breach and what Facebook had done to address
6 it. As *The New York Times* reported on July 25, 2018:⁴³⁷

7 Facebook reported on Wednesday that growth in digital advertising sales and in the
8 number of its users had decelerated in the second quarter. The company’s leaders,
9 including its chief executive, Mark Zuckerberg, added that the trajectory was not
likely to improve anytime soon, especially as Facebook spends to improve the
privacy and security of users.

10 Facebook has grappled with months of scrutiny over Russian misuse of the platform
11 in the 2016 American presidential campaign and the harvesting of its users’ data
12 through the political consulting firm Cambridge Analytica. The results were among
the first signs that the issues had pierced the company’s image and would have a
lasting effect on its moneymaking machine.

13 In response, Facebook’s stock tumbled more than 23 percent in after-hours trading,
14 erasing more than \$120 billion in market value in less than two hours.

15 426. *The Los Angeles Times* similarly reported on July 26, 2018:⁴³⁸

16 Facebook Inc. saw the first signs of user disenchantment in the midst of public
17 scandals over privacy and content, with second-quarter revenue and average daily
visitors missing analysts’ projections.

18 Its stock sank as much as 25% in extended trading.

19 * * *

20 The company’s user growth fell short of expectations in the same quarter Chief
21 Executive Mark Zuckerberg testified for 10 hours in Congress on data privacy issues.
22 It also came as Europe implemented strict new data laws, which Facebook had
warned could lead to fewer daily visitors in that region. The company also was
bombarded by public criticism over its content policies, especially in countries such
as Myanmar and Sri Lanka where misinformation has led to violence.

23 “The core Facebook platform is declining,” said Brian Wieser, an analyst at Pivotal
24 Research Group.

25
26 ⁴³⁷ Sheera Frenkel, *Facebook Starts Paying a Price for Scandals*, N.Y. Times (July 25, 2018).

27 ⁴³⁸ *BUSINESS BEAT; Facebook shares sink after miss; Firm sees revenue and daily visitors fall in*
28 *second quarter amid public scandals over privacy and content*, L.A. Times (July 26, 2018).

1 427. On September 5, 2018, the Pew Research Center issued a report it conducted from
2 May 29 to June 11, 2018, in the aftermath of the Cambridge Analytica scandal. The report,
3 “Americans are changing their relationship with Facebook,” documented changes in Facebook user
4 engagement in previous 12 months, and revealed substantial disengagement by Facebook users in
5 that period, including that more than half (54%) of Facebook users had changed their privacy
6 settings to share less with Facebook, 42% had taken extended breaks from engaging with Facebook,
7 while more than a quarter (26%) had deleted the Facebook app from their cell phones. “All told,
8 some 74% of Facebook users say they have taken at least one of these three actions in the past year,”
9 with disengagement particularly pronounced among the younger users coveted by advertisers.⁴³⁹

10 **P. Facebook’s Class Period False Statements Reflect the Anti-Privacy**
11 **Corporate Culture that Has Always Existed at Facebook**

12 428. The many Class Period false statements made by defendants regarding privacy,
13 supposed user control over data and related issues were simply reflecting a culture that existed at
14 Facebook since its founding and through at least the end of the Class Period. That culture was to pay
15 lip service to concerns about privacy and misuse of user data while at every turn prioritizing growth
16 and user revenue. Whenever they were forced to choose between providing meaningful privacy
17 protections for user data or opportunities for growth, the most senior executives at Facebook
18 (including Zuckerberg and Sandberg) consistently minimized privacy concerns in favor of expanding
19 Facebook.

20 429. These anti-privacy decisions created an internal tension with Facebook’s public
21 stance that it respected user privacy. To retain the illusion that Facebook was accurately
22 representing the way in which it protected sensitive user data, defendants developed a playbook for
23 how to respond to public stories relating to misuse of such data. Time and time again they would
24 respond to reporter inquiries on upcoming stories by attacking the stories, accusing them of being
25 wrong, and trying to keep them from being published. Then, after the stories were published (and
26 almost uniformly proved to be accurate) defendants would embark on a public apology tour replete

27 ⁴³⁹ Andrew Perrin, *Americans are changing their relationship with Facebook*, Pew Research Center
28 (Sept. 5, 2018).

1 with admissions of “mistakes,” promises to do better in the future, dressed up with lavish statements
2 regarding Facebook’s high respect for user privacy and assurances that it was the Company’s top
3 priority.

4 430. Inside Facebook, senior employees were fully aware that Facebook’s public act was a
5 sham. Both prior to and throughout the Class Period, serious privacy concerns were raised to the
6 highest levels of Facebook by very senior employees. Facebook’s lack of response to these concerns
7 was not innocent: it was deliberate strategy aimed at utilizing sensitive user data in order to grow
8 Facebook no matter what the cost for user privacy.

9 431. According to Parakilas, Facebook’s former operations manager, who “led Facebook’s
10 efforts to fix privacy problems on its developer platform” in advance of its IPO, Facebook
11 “prioritized data collection from its users over protecting them from abuse” because “[t]he more data
12 [Facebook] has [to] offer, the more value it creates for advertisers,” meaning “it has no incentive to
13 police the collection or use of that data – except when negative press or regulators [we]re
14 involved.”⁴⁴⁰

15 432. Parakilas further explained that Facebook “allocated resources in a way that implied
16 that they were almost entirely focused on growth and monetization at the expense of user protection”
17 and that he “could not get engineers to build or maintain some of the compliance functions that [he]
18 felt were necessary.”⁴⁴¹

19 433. Indeed, according to Parakilas it was “well known at the company” that user data was
20 being shared with third-party app developers.⁴⁴² For example, Parakilas said that in 2012 he had
21 expressed concerns about these privacy practices to some of “[the top five] executives at the
22 Company,” including in a presentation that contained a “map of [data] vulnerabilities.”⁴⁴³ Further,
23 Parakilas said in an interview that his presentation documented the “many gaps that left users

24 ⁴⁴⁰ Sandy Parakilas, *We Can’t Trust Facebook to Regulate Itself*, N.Y. Times (Nov. 19, 2017).

25 ⁴⁴¹ Noah Kulwin, *Facebook Is a Fundamentally Addictive Product*,’ *Intelligencer* (Apr. 2018).

26 ⁴⁴² David Morgan, *Former manager says he warned Facebook about potential privacy risks in*
27 *2012*, CBS News (Apr. 9, 2018).

28 ⁴⁴³ Noah Kulwin, *Facebook Is a Fundamentally Addictive Product*,’ *Intelligencer* (Apr. 2018).

1 exposed” in Facebook’s platform⁴⁴⁴ and, in particular, highlighted how “the Facebook platform
2 allowed developers to access a huge amount of Facebook’s data” – which Parakilas described as
3 “one of the biggest vulnerabilities the company had.”⁴⁴⁵

4 434. As Parakilas later testified to the U.K. House of Commons Digital, Culture, Media
5 and Sport Committee, “the concern I had was that they [*i.e.*, Facebook and its senior executives] had
6 built this platform that would allow people to get all of this data on people who had not really
7 explicitly authorized” it.⁴⁴⁶ Parakilas elaborated that “it was really personal data,” including names,
8 emails and even private messages, and “they basically allowed that to leave Facebook’s servers
9 intentionally.”⁴⁴⁷ Parakilas stated that, although “executives at Facebook were well aware that
10 developers could, without detection, pass data to unauthorized fourth parties” – such as what
11 happened with Cambridge Analytica – he “did not get much if any follow-up from the executives,”
12 who were “*not . . . concerned about the vulnerabilities that the Company was creating; they were*
13 *concerned about revenue growth and user growth.*”⁴⁴⁸ He stated that “[d]espite my attempts to
14 raise awareness about this issue, nothing was done to close the vulnerability.”⁴⁴⁹ Parakilas
15 confirmed that his warnings went to Facebook executives who were “*among the top five executives*
16 *in the company.*”⁴⁵⁰

17
18
19 ⁴⁴⁴ Sandy Parakilas, *I worked at Facebook. I know how Cambridge Analytica could have happened.*,
Wash. Post (Mar. 20, 2018).

20 ⁴⁴⁵ Noah Kulwin, *Facebook Is a Fundamentally Addictive Product*, Intelligencer (Apr. 2018).

21 ⁴⁴⁶ Parakilas testified to the House of Commons’ Digital, Culture, Media and Support Committee in
22 the U.K. on March 21, 2018 (“Parakilas U.K. Test.”) at Q1206.

23 ⁴⁴⁷ *Id.*

24 ⁴⁴⁸ James Jacoby and Anya Bourg, *Facebook Insider Says Warning About Data Safety Went*
Unheeded By Executives, PBS Frontline (Mar. 20, 2018).

25 ⁴⁴⁹ *Id.*

26 ⁴⁵⁰ *See, e.g.*, James Jacoby & Anya Bourg, *Facebook Insider Says Warnings About Data Safety*
27 *Went Unheeded By Executives*, Frontline (Mar. 20, 2018); *see also id.* at 4:01 of the embedded video
28 (Mr. Parakilas is asked, “And how senior were the senior executives?” He responds, “Very senior.
Like, among the top five executives in the Company.”).

1 435. Moreover, Facebook executives knew that once the app developers had this
2 unauthorized data, there was essentially nothing that Facebook could do to control how it was used.
3 Confirming this, Parakilas testified that “there were not any controls once the data had left
4 [Facebook] to ensure that it was being used in an appropriate way.”⁴⁵¹ Likewise, Parakilas stated to
5 *The Guardian*,⁴⁵² that Facebook had “**Zero. Absolutely no[]**” control over the data once it left
6 “Facebook servers.” So, Facebook “**had no idea what developers were doing with the data,**”
7 according to Parakilas.

8 436. Parakilas could not recall “the company conducting a single audit of a developer
9 where the company inspected the developer’s data storage.”⁴⁵³ Parakilas also said he had told other
10 Facebook executives to audit its app developers to find out “what’s going on with the data” they
11 were collecting from users, to which one executive responded, “Do you really want to see what
12 you’ll find?”⁴⁵⁴ “**They felt that it was better not to know,**” Parakilas told *The Guardian*.⁴⁵⁵ “The
13 company just wanted negative stories to stop,” he said. “It didn’t really care how the data was
14 used.”⁴⁵⁶

15 437. Despite Facebook’s many assurances to the contrary – including its April 2014 false
16 promise to eliminate third-party sharing of data – Facebook’s deliberately lax privacy practices
17 continued even *after* discovery of the Cambridge Analytica issues. According to a June 18, 2016
18 memorandum posted on the Company’s internal website by Facebook VP Andrew Bosworth, who
19 has been described as one of “Zuckerberg’s most trusted lieutenants”:⁴⁵⁷

20 _____
21 ⁴⁵¹ Parakilas U.K. Test. at Q1206.

22 ⁴⁵² Paul Lewis, ‘*Utterly Horrifying*’: *ex-Facebook insider says covert data harvesting was routine*,
Guardian (Mar. 20, 2018).

23 ⁴⁵³ *Id.*

24 ⁴⁵⁴ *Id.*

25 ⁴⁵⁵ Paul Lewis, *Utterly horrifying*: *ex-Facebook insider says covert data harvesting was routine*,
26 Guardian (Mar. 20, 2018).

27 ⁴⁵⁶ Sandy Parakilas, *We Can’t Trust Facebook to Regulate Itself*, N.Y. Times (Nov. 19, 2017).

28 ⁴⁵⁷ The description was in an article by *Buzzfeed News* accompanying the memo, both of which
were published on March 29, 2018. *Buzzfeed* reported that, as of the time its article was published,
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FEDERAL SECURITIES LAWS - 5:18-cv-01725-EJD

1 ***The ugly truth is that we believe in connecting people so deeply that anything that***
 2 ***allows us to connect more people more often is *de facto* good.*** It is perhaps the
 only area where the metrics do tell the true story as far as we are concerned.

3 That isn't something we are doing for ourselves. Or for our stock price (ha!).
 4 It is literally just what we do. We connect people. Period.

5 That's why all the work we do in growth is justified. ***All the questionable***
 6 ***contact importing practices.*** All the subtle language that helps people stay
 searchable by friends. All of the work we do to bring more communication in. The
 work we will likely have to do in China some day. All of it.

7 * * *

8 I know a lot of people don't want to hear this. Most of us have the luxury of
 9 working in the warm glow of building products consumers love. But make no
 10 mistake, ***growth tactics are how we got here.*** If you joined the company because it
 11 is doing great work, that's why we get to do that great work. We do have great
 products but we still wouldn't be half our size without pushing the envelope on
 growth. Nothing makes Facebook as valuable as having your friends on it, and no
 product decisions have gotten as many friends on as the ones made in growth.

12 438. The memo, originally posted to "rally the troops" in response to controversy sparked
 13 by the live streaming of a shooting death on Facebook, stated that collateral damage to users was
 14 irrelevant: "So we connect more people. That can be bad if they make it negative. Maybe it costs a
 15 life by exposing someone to bullies. Maybe someone dies in a terrorist attack coordinated on our
 16 tools. And still we connect people."⁴⁵⁸

17 439. In December 2017, Alex Stamos, Facebook's Chief Information Security Officer (and
 18 a co-author of the white paper described above), was forced out of his job as a result of "internal
 19 disagreements over how the social network should deal with its role in spreading disinformation."⁴⁵⁹

20
 21 the memo was still available and regularly accessed on Facebook's internal website. Ryan Mac,
 22 Charlie Warzel and Alex Kantrowitz, *Top Facebook Executive Defended Data Collection in 2016*
 23 *Memo – And Warned That Facebook Could Get People Killed*, BuzzFeed (Mar. 29, 2018); Gideon
 24 Lichfield, *Watch Sheryl Sandberg's technique for shielding Facebook from hard questions*, Quartz at
 Work (Oct. 13, 2017); Sandy Parakilas, *We Can't Trust Facebook to Regulate Itself*, N.Y. Times
 (Nov. 19, 2017); Noah Kulwin, *'Facebook Is a Fundamentally Addictive Product'*, Intelligencer
 (Apr. 10, 2018).

25 ⁴⁵⁸ Ryan Mac, Charlie Warzel and Alex Kantrowitz, *Top Facebook Executive Defended Data*
 26 *Collection in 2016 Memo – And Warned That Facebook Could Get People Killed*, BuzzFeed (Mar.
 29, 2018).

27 ⁴⁵⁹ Joseph Menn, *UPDATE 1-Facebook's security chief to depart, source says*, Reuters (Mar. 19,
 28 2018).

1 issues. And we need to be *open, honest and transparent* about challenges and what
2 we are doing to fix them. (Emphasis in original).

3 443. As *Business Insider* reported on April 9, 2018, Facebook employees are “quitting or
4 asking to switch departments over ethical concerns.”⁴⁶³ These “dissatisfied Facebook engineers are
5 reportedly attempting to switch divisions to work on Instagram or WhatsApp, rather than continue
6 work on the platform responsible for the Cambridge Analytica scandal.” Indeed, “[a]s it became
7 evident that Facebook’s core product might be to blame” for the data security breach, “engineers
8 working on it reportedly found it increasingly difficult to stand by what it built.”⁴⁶⁴

9 **V. Facts Revealed Through Recent Regulatory Actions, Investigations and**
10 **Other Proceedings Have Further Confirmed Defendants’ Deliberate**
11 **Misconduct During the Class Period**

12 444. Facebook’s misconduct as alleged herein has been confirmed and corroborated by
13 specific facts uncovered in multiple governmental and regulatory investigations both in the United
14 States and abroad, as well as by court proceedings throughout the country. These proceedings and
15 investigations have been detailed and extensive and include review or access to previously-
16 unavailable internal Facebook documents, direct interviews or sworn testimony from Facebook
17 executives and Facebook’s past interactions with regulators.

18 445. They have resulted in specific findings that: (i) Facebook knowingly made materially
19 false and misleading statements during the Class Period relating to its risk disclosures and about its
20 purported response to the Cambridge Analytica data scandal, *SEC v. Facebook, Inc.*, 3:19-cv-04241-
21 JD (N.D. Cal.) (defined above as the “SEC Complaint”); (ii) Facebook made repeated
22 misrepresentations regarding its handling of user data and deliberately violated the 2012 FTC
23 Consent Decree, *United States of America v. Facebook*, Case No. 19-cv-2184 (D.D.C.) (defined
24 above as the “FTC Complaint”); (iii) Facebook’s users could proceed with the vast majority of their
25 privacy lawsuit against Facebook, including on claims that specifically sound in fraud, *In re*
26 *Facebook, Inc. Consumer Privacy User Profile Litig.*, 2019 WL 4261048 (N.D. Cal. Sept. 9, 2019)

27 ⁴⁶³ Prachi Bhardwaj, *Some Facebook employees are reportedly quitting or asking to switch*
28 *departments over ethical concerns*, *Business Insider* (Apr. 9, 2018).

⁴⁶⁴ *Id.*

1 (defined above as the “Consumer Case”) (“plaintiffs have also adequately alleged that Facebook
 2 intended to defraud its users regarding this conduct”); and (iv) concluded that “Facebook
 3 *intentionally and knowingly violated both data privacy* and anti-competition laws,” Final Report of
 4 the Digital, Cultural, Media and Sport Committee of the British House of Commons (defined below
 5 as the “Final Report”).

6 **A. Defendants’ Liability for Securities Fraud Is Confirmed in Actions**
 7 **Filed by the SEC and the FTC**

8 446. As noted above, after extensive investigations the SEC and the FTC both concluded
 9 that Facebook engaged in significant misconduct with respect to its representations regarding user
 10 data and privacy.

11 **1. Facebook Paid \$100 Million Dollars to Settle SEC Charges that**
Facebook Committed Securities Fraud

12 447. In late July 2019, following an extensive, year-long investigation,⁴⁶⁵ the SEC
 13 announced that defendant Facebook had agreed to pay \$100 million to resolve SEC charges that
 14 Facebook had made, *inter alia*, “untrue statements of material fact” or material omissions that
 15 operated “as a *fraud or deceit upon purchasers*” of its securities.⁴⁶⁶ The SEC’s case was based on a
 16 review of internal documents and supported by specific facts uncovered in its investigation.

17 448. **False Risk Disclosures.** The SEC charged Facebook with making materially false
 18 and misleading statements in the “risk factors” section of its SEC filings, including its filings during
 19 the Class Period. Specifically, the SEC charged that “[i]n its quarterly and annual reports filed
 20 between January 28, 2016 and March 16, 2018, Facebook did not disclose that a researcher had, in
 21 violation of the company’s policies, transferred data relating to [tens of millions of Facebook users]
 22
 23
 24

25 ⁴⁶⁵ On July 12, 2018, *The Wall Street Journal* reported that the SEC was investigating “whether
 26 Facebook Inc. adequately warned investors that developers and other third parties may have obtained
 27 users’ data without their permission or in violation of Facebook policies.” See Dave Michaels &
 Georgia Wells, *SEC Probes Why Facebook Didn’t Warn Sooner on Privacy Lapse*, Wall St. J. (July
 12, 2018).

28 ⁴⁶⁶ SEC Complaint at ¶53.

1 to Cambridge Analytica. Instead, Facebook misleadingly presented the potential for misuse of user
2 data as merely a hypothetical risk.”⁴⁶⁷

3 449. The SEC concluded “Facebook knew, or should have known, that its Risk Factor
4 disclosures in its annual reports on Form 10-K for the fiscal years ended . . . December 31, 2016, and
5 December 31, 2017, and its quarterly reports on Form 10-Q filed in . . . 2017 . . . were materially
6 misleading.”⁴⁶⁸

7 450. **False Statements Regarding Cambridge Analytica.** The SEC also charged
8 Facebook with making materially misleading statements about “its investigation into the Cambridge
9 Analytica matter.” Specifically, the SEC charged Facebook with “falsely claim[ing] the company
10 found no evidence of wrongdoing,” which “reinforce[ed] the misleading statements in its periodic
11 filings.”⁴⁶⁹ The SEC pointed to the fact that, when asked by reporters about its investigation into the
12 Cambridge matter, authorized Facebook representatives stated “Our investigation to date has not
13 uncovered anything that suggests wrongdoing.”⁴⁷⁰ As the SEC charged, this “was misleading
14 because Facebook had, in fact, determined that [Kogan’s] transfer of user data to Cambridge violated
15 the Company’s Platform Policy.”⁴⁷¹

16 451. **The SEC Relied on Numerous Facts.** In support of its charges, the SEC pointed to
17 multiple facts, including the following. First, as early as September 2015, Facebook “was already
18 familiar with Cambridge and had suspicions that Cambridge had misused user data.”⁴⁷² Second, in
19 December 2015, Facebook learned that Cambridge Analytica had improperly bought Facebook user
20 data from Kogan in violation of Facebook’s policies. At that time, Kogan and Cambridge Analytica
21 “confirmed to Facebook that [Kogan] had used a Facebook app to collect user data and then used

22
23 ⁴⁶⁷ *Id.* at ¶6.

24 ⁴⁶⁸ *Id.* at ¶44.

25 ⁴⁶⁹ *Id.*

26 ⁴⁷⁰ *Id.* at ¶49.

27 ⁴⁷¹ *Id.*

28 ⁴⁷² *Id.* at ¶34.

1 that data to create personality scores, which were then shared with Cambridge.”⁴⁷³ Facebook
2 determined that this transfer to Cambridge Analytica “violated the Company’s Platform Policy”⁴⁷⁴
3 and disseminated this conclusion widely within Facebook, including to “Facebook’s
4 communications, legal, operations, policy, privacy and research groups.”⁴⁷⁵

5 452. Third, in June 2016, Facebook learned that Kogan and Cambridge Analytica lied
6 about the improper transfer and purported deletion of Facebook user data. In particular, in June
7 2016, Kogan revealed to Facebook that “contrary to [Kogan’s] and Cambridge [Analytica’s]
8 representations in December 2015,” it was not only user “personality scores” had been improperly
9 sold to Cambridge Analytica. Instead, Kogan had also improperly shared “actual Facebook user
10 data, including names, birthdays, location, and certain page likes.”⁴⁷⁶ This also revealed that
11 Cambridge Analytica had lied to Facebook when it represented in December 2015 that it had deleted
12 the Facebook user data that it had received from Kogan.⁴⁷⁷ Following exposure of these lies in June
13 2016, it was not until nearly one year later in April 2017 that Facebook received from Cambridge
14 Analytica another representation that the improperly-shared Facebook user data was purportedly
15 deleted.⁴⁷⁸

16 453. Fourth, the SEC noted that “[t]hroughout 2016, red flags were raised to Facebook
17 suggesting that Cambridge was potentially misusing Facebook user data.”⁴⁷⁹ These red flags
18 included Facebook’s awareness of “a video of a marketing presentation by Cambridge’s chief
19 executive officer about the firm’s ability to target voters based on personality,” and the Company’s

21 ⁴⁷³ *Id.* at ¶29.

22 ⁴⁷⁴ *Id.* at ¶30. The SEC defined Facebook’s “Platform Policy” as “a set of rules governing what
developers are allowed to do with the apps they create and the data that they gather.” *Id.*

23 ⁴⁷⁵ *Id.*

24 ⁴⁷⁶ *Id.*

25 ⁴⁷⁷ *Id.* (noting that, in December 2015, “Cambridge . . . told Facebook that it had deleted the data
26 received from [Kogan]”).

27 ⁴⁷⁸ *Id.* at ¶32.

28 ⁴⁷⁹ *Id.* at ¶35.

1 knowledge of the fact that “Cambridge named Facebook and Instagram advertising audiences by
2 personality trait for certain clients” – coupled with Facebook’s awareness of media reports of
3 Cambridge’s use of personality profiles to target advertising in summer and fall 2016.⁴⁸⁰

4 454. Fifth, the SEC explained that it was not until March 16, 2018 that Facebook “publicly
5 acknowledged, *for the first time*, that it had confirmed that [Kogan] had transferred user data to
6 Cambridge, in violation of its Platform Policy, and that the company had told [Kogan] and
7 Cambridge to delete the data in December 2015.”⁴⁸¹

8 455. On August 22, 2019, Judge James Donato entered a final judgment as to defendant
9 Facebook in the SEC Action, which, *inter alia*, permanently enjoined Facebook from further:
10 (i) selling securities “by means of any untrue statement of a material fact” or “any omission of
11 material fact”; and (ii) operating a “fraud or deceit upon the purchaser” of its securities.⁴⁸²

12 **2. Facebook Paid a Record-Setting \$5 Billion Dollar Penalty to**
13 **Settle FTC Charges that Facebook Violated User Privacy and**
the FTC Consent Decree

14 456. On July 24, 2019, following a detailed investigation spanning more than one year, the
15 FTC announced that Facebook had agreed to “pay a record-breaking \$5 billion penalty and submit to
16 new restrictions and a modified corporate structure that will hold the company accountable for the
17 decisions it makes about its users’ privacy,” in order to “settle [FTC] charges that [Facebook]
18 violated a 2012 FTC order by deceiving users about their ability to control the privacy of their
19 information.”⁴⁸³

20 457. The \$5 billion penalty against Facebook was the “*largest ever imposed on any*
21 *company for violating consumers’ privacy*,” was “almost *20 times greater* than the largest privacy
22
23

24 ⁴⁸⁰ *Id.*

25 ⁴⁸¹ *Id.* at ¶51.

26 ⁴⁸² SEC Action, ECF No. 11 at 1-2.

27 ⁴⁸³ Press Release, *FTC Imposes \$5 Billion Penalty and Sweeping New Privacy Restrictions on*
28 *Facebook*, Federal Trade Commission (July 24, 2019).

1 or data security penalty ever imposed worldwide” and was “one of the *largest penalties ever*
2 *assessed by the U.S. government for any violation.*”⁴⁸⁴

3 **a. The FTC Imposed Privacy Reforms Designed to**
4 **Remove Zuckerberg’s “Unfettered Control” over**
“Decisions Affecting User Privacy”

5 458. In addition to a record-setting penalty, the FTC also forced Facebook to implement
6 significant privacy reforms in order to “prevent Facebook from deceiving its users about privacy in
7 the future” and, in particular, to remove Zuckerberg’s “unfettered control” over privacy-related
8 decisions at Facebook. Indeed, as described by the FTC: ““The [new FTC] order creates greater
9 accountability at the board of directors level. It establishes an independent privacy committee of
10 Facebook’s board of directors, *removing unfettered control by Facebook’s CEO Mark Zuckerberg*
11 *over decisions affecting user privacy.*”

12 459. These far-reaching privacy reforms were set forth in a stipulated order (the
13 “Stipulated Order”) signed by Zuckerberg. Among other things, the reforms included:

- 14 • Prohibitions on Facebook engaging in further misrepresentations concerning its
15 privacy practices, including misrepresentations about Facebook’s “collection, use or
16 disclosure of [user personal information],” the “extent to which a consumer can
17 control the privacy of [user personal information],” “the extent to which [Facebook]
18 makes or has made [user personal information] accessible to third parties,” and the
19 “steps [Facebook] takes or has taken to verify the privacy or security protections that
20 any third party provides”;⁴⁸⁵
- 21 • Requiring Facebook to obtain a “User’s affirmative express consent” prior to sharing
22 user personal information with third parties;⁴⁸⁶
- 23 • Requiring Facebook to establish and implement a “comprehensive privacy program”
24 to protect user personal information, including the appointment of a “Chief Privacy
25 Officer,” rigorous documentation requirements and regular privacy audits at least
26 every 12 months;⁴⁸⁷ and

27 ⁴⁸⁴ *Id.*

28 ⁴⁸⁵ Stipulated Order, §I (“Prohibition Against Misrepresentations”).

⁴⁸⁶ *Id.*, §II (“Changes To Sharing Of Nonpublic User Information”).

⁴⁸⁷ *Id.*, §VII (“Mandated Privacy Program”).

- Requiring Facebook to establish an “Independent Privacy Committee” consisting of Independent Directors to assess the state of Facebook’s privacy program, its compliance with the Stipulated Order and the existence and mitigation of any “material risks to the privacy, confidentiality, and Integrity” of user personal information.⁴⁸⁸

460. Facebook is required to comply with the Stipulated Order and its privacy reforms for the next 20 years.

b. The FTC Charged Facebook with Violating the 2012 FTC Consent Decree Through “Deceptive Privacy Settings and Statements”

461. The FTC charged Facebook with violating the 2012 FTC Consent Decree by “subvert[ing] users’ privacy choices to serve its own business interests” through “at least June 2018”⁴⁸⁹ – which covers nearly the entire Class Period here. As explained by the FTC, Facebook made “deceptive privacy . . . statements” regarding its users’ ability to restrict “the sharing of their information to their Facebook Friends, when, in fact, third-party developers could access and collect their data through their Friends’ use of third-party developers’ apps.”⁴⁹⁰ Among other statements, the FTC devoted considerable focus to the fact that defendants had “misrepresent[ed] ‘the extent to which a consumer can control the privacy of their personal information,’”⁴⁹¹ which violated Parts I.B and I.C of the 2012 Consent Decree.

462. Moreover, the FTC charged Facebook with knowingly or recklessly violating the FTC Consent Decree by depriving users of control over their personal information. For example, the FTC stated that “Facebook knew or should have known that its conduct violated the 2012 [Consent Decree] because it was engaging in the very same conduct that the [FTC] alleged was deceptive in Count One of the original Complaint that led to the 2012 Order.”⁴⁹²

⁴⁸⁸ *Id.*, §X (“Mandated Independent Privacy Committee And Other Governance Matters”).

⁴⁸⁹ FTC Complaint at ¶4.

⁴⁹⁰ *Id.* at ¶9.

⁴⁹¹ *See, e.g., id.* at ¶¶6, 155, 160, 166.

⁴⁹² *Id.*

1 463. In support of these charges, the FTC relied on the fact that, from “April 30, 2015, to
2 at least June 2018” Facebook misrepresented that users could “control” the privacy of their data,
3 when, in fact, “regardless of the privacy settings a user checked, Facebook continued to provide
4 access to [user personal information] to Whitelisted Developers.”⁴⁹³ These Whitelisted Developers
5 with undisclosed access to user friend information included more than two dozen “gaming, retail,
6 and technology companies, as well as third-party developers of dating apps and other social media
7 services”;⁴⁹⁴

8 464. According to the FTC, Facebook also knowingly or recklessly violated the FTC
9 Consent Decree by:

- 10 • Publicly misrepresenting that it would “no longer allow third-party developers to
11 access [user friend data]” when, in fact, “Facebook continued to allow millions of
12 third-party developers access to [user friend data] for at least another year”;⁴⁹⁵ and
- 13 • “[R]epresenting to consumers that they could control the privacy of their data by
14 using desktop and mobile privacy settings to limit the information Facebook could
15 share with their Facebook Friends” when, in fact, “Facebook did not limit its sharing
16 of consumer information with third-party developers based on the privacy
17 settings.”⁴⁹⁶

18 **c. The FTC Charged Facebook with Violating the 2012
19 Consent Decree by Failing to Maintain a Reasonable
20 Privacy Program**

21 465. The FTC also charged that Facebook violated the 2012 Consent Decree because it
22 “failed to maintain a reasonable privacy program that safeguarded the privacy, confidentiality, and
23 integrity of user information, as required by Part IV of the 2012 Order.”⁴⁹⁷ This violated Part IV of
24 the 2012 Consent Decree.

24 ⁴⁹³ See, e.g., *id.* at ¶¶106-113, 166-175.

25 ⁴⁹⁴ *Id.* at ¶108.

26 ⁴⁹⁵ *Id.* at ¶¶160-165.

27 ⁴⁹⁶ *Id.* at ¶¶155-159.

28 ⁴⁹⁷ *Id.* at ¶10.

1 466. Specifically, Facebook failed to “vet third-party developers before granting them
2 access to consumer data”⁴⁹⁸ and, then, Facebook’s “enforcement of its policies, terms and conditions
3 . . . was inadequate and was influenced by the financial benefit that violator third-party app
4 developers provided to Facebook.” As the FTC stated: “This conduct was unreasonable.”⁴⁹⁹

5 **d. The FTC Charged Facebook with Violating the 2012**
6 **Consent Decree by Misusing User Information Provided**
7 **for Account Security**

8 467. The FTC also charged Facebook with violating users’ privacy by engaging in
9 “deceptive practices” in violation of §5(a) of the *Federal Trade Commission Act* (the “FTC Act”).
10 Among other things, Facebook violated §5(a) of the FTC Act because it represented that users’
11 “phone numbers provided for two-factor authentication would be used for security purposes”⁵⁰⁰ In
12 reality, and contrary to its representations, “Facebook would also use [those] phone numbers . . . for
targeting advertisements to those users.”⁵⁰¹

13 **e. Defendants Facebook and Zuckerberg Agreed that the**
14 **Facts in the FTC Complaint Would Be “Taken as True”**
15 **in Any Subsequent FTC Enforcement Action**

16 468. In the Stipulated Order, which was signed by Zuckerberg himself, Facebook agreed
17 that “the facts alleged in the [FTC’s] Complaint *will be taken as true*, without further proof” in any
“subsequent” litigation by the FTC to enforce its rights under the Stipulated Order.⁵⁰²

18 **B. Defendants’ Privacy Violations and Misuse of User Data Are**
19 **Confirmed by Multiple Courts Nationwide**

20 **1. Another Court in This District Has Sustained Claims Against**
21 **Facebook for Improperly Sharing Users’ Personal Information**
22 **with Third Parties**

23 469. On September 9, 2019, in a related MDL privacy case against Facebook, Judge
Chhabria issued an opinion and order largely denying Facebook’s motion to dismiss. In that opinion

24 ⁴⁹⁸ *Id.* at ¶¶11-12.

25 ⁴⁹⁹ *Id.* at ¶12; *see also id.* at ¶¶176-182.

26 ⁵⁰⁰ *Id.* at ¶187.

27 ⁵⁰¹ *Id.* at ¶188.

28 ⁵⁰² Stipulated Order at 3 at ¶E.

1 he addressed several factual issues that are also relevant to this securities litigation. *See In re*
2 *Facebook Inc., Consumer Privacy User Profile Litig.*, 2019 WL 4261048 (N.D. Cal. Sept. 9, 2019)
3 (Chhabria, J.) (defined above as the “Consumer Case”).

4 470. Judge Chhabria stated that “[b]roadly speaking, this [consumer] case is about whether
5 Facebook acted unlawfully in making user information widely available to third parties. It’s also
6 about whether Facebook acted unlawfully in failing to do anything meaningful to prevent third
7 parties from misusing the information they obtained.”⁵⁰³

8 471. The plaintiffs in the Consumer Case pursued four main categories of wrongdoing
9 against Facebook: (1) giving app developers unauthorized access to sensitive user information;
10 (2) continued disclosure by Facebook through at least June 2018 of sensitive user information to
11 “whitelisted” apps; (3) sharing sensitive user information with business partners through at least June
12 2018; and (4) failing to prevent third parties from misusing the information Facebook allowed them
13 to access.⁵⁰⁴

14 472. Facebook argued in its motion to dismiss that all of the claims asserted in the
15 Consumer Case failed because Facebook users purportedly had agreed that “Facebook could
16 disseminate their ‘friends only’ information in the way it has done.”⁵⁰⁵ The court rejected this
17 argument on several grounds.

18 473. First, the court was forced to apply a “fiction” created by California law, which
19 “requires the Court to *pretend* that users actually read Facebook’s contractual language before
20 clicking their acceptance, *even though we all know virtually none of them did.*”⁵⁰⁶

21 474. The court expressly doubted that any Facebook user had consented to this practice in
22 *reality*, as opposed to the legal fiction created by operation of California law. The court stated that

23

24

25 ⁵⁰³ *Id.* at *2.

26 ⁵⁰⁴ *Id.* at *4-*5.

27 ⁵⁰⁵ *Id.* at *4.

28 ⁵⁰⁶ *Id.* at *12.

1 “in reality, virtually no one ‘consented’ in a layperson’s sense to Facebook’s dissemination of this
2 information to app developers.”⁵⁰⁷

3 475. Moreover, the court distinguished its ruling under California law from the FTC
4 lawsuit. The court noted that “the FTC’s claims against Facebook are not based on California law;
5 they are based on alleged violations of the Federal Trade Commission Act and the earlier FTC
6 consent order from 2012.”⁵⁰⁸ According to the court:⁵⁰⁹

7 While California law, for better or worse, allows Facebook to *bury a disclosure* of its
8 information-sharing practices in the fine print of its contractual language, the *FTC*
9 *consent order required Facebook to disclose such practices prominently, in a way*
10 *that would likely come to the attention of Facebook users*. More broadly, the
11 consent order precluded Facebook from explicitly or implicitly misrepresenting the
12 extent to which the company protects user privacy.

13 476. Second, the court found it “easy to conclude” that users could pursue claims against
14 Facebook based on Facebook’s post-2014 disclosure of information to whitelisted apps, which the
15 consumer plaintiffs alleged was done because these apps generated revenue for Facebook.⁵¹⁰ The
16 court noted that “thousands of companies were allegedly on this list, including Airbnb, Netflix, UPS,
17 Hot or Not, Salesforce, Lyft, Telescope, and Spotify.”⁵¹¹

18 477. Third, the court rejected Facebook’s argument that users had consented to Facebook’s
19 disclosure of sensitive information to a wide range of other enormous companies. While Facebook
20 contended that its Data Use Policy disclosed this practice, the court held that it “does not come close
21 to disclosing the *massive information-sharing program* with business partners that plaintiffs
22 allege.”⁵¹² As the court noted, Facebook itself had since identified a “non-exclusive list of

23 ⁵⁰⁷ *Id.* (“for the rare person who actually read the contractual language, it would have been difficult
24 to isolate and understand the pertinent language among all of Facebook’s complicated disclosures.”).

25 ⁵⁰⁸ *Id.* at *13 n.13.

26 ⁵⁰⁹ *Id.*

27 ⁵¹⁰ *Id.* at *25.

28 ⁵¹¹ *Id.* at *8.

⁵¹² *Id.* at *25.

1 companies” that includes such giants as Blackberry, Samsung, Yahoo, the Russian search engine
2 Yandex, Amazon, Microsoft, and Sony.⁵¹³

3 478. Finally, the court allowed the consumer plaintiffs to pursue claims based on
4 allegations that although Facebook had a policy preventing app developers from using information
5 for improper purposes, “Facebook did nothing to enforce this policy, thus giving users the
6 impression that their information was protected, while in reality countless app developers were using
7 it for other purposes.”⁵¹⁴ The court noted that Facebook interpreted its policy to mean, in essence,
8 “we tell app developers that they can only use your information to facilitate their interactions with
9 your friends, but you can’t really be sure they’ll honor that.”⁵¹⁵ The court characterizes this as a
10 view that the Facebook user “assumed the risk that app developers would misuse [their]
11 information.”⁵¹⁶

12 479. The court rejected Facebook’s argument, noting that its Data Use Policy could
13 reasonably be interpreted to mean that “Facebook is actively policing the activities of app developers
14 . . . and thereby successfully preventing sensitive information from being misappropriated.”⁵¹⁷ The
15 Court also noted that the Data Use Policy could be interpreted by a reasonable user to mean that the
16 “Facebook platform has the ability to *physically prevent* app developers from being able to “see”
17 friend information outside the context of their interactions with users.”⁵¹⁸

18 480. Based on these findings, the court concluded that the consumer plaintiffs had
19 successfully pled a number of privacy-related claims, including claims based on concealment and
20

21
22
23 ⁵¹³ *Id.* at *8.

24 ⁵¹⁴ *Id.* at *9 (using Cambridge Analytica as an example).

25 ⁵¹⁵ *Id.* at *28.

26 ⁵¹⁶ *Id.*

27 ⁵¹⁷ *Id.*

28 ⁵¹⁸ *Id.* at *28-*29.

1 deceit that “sound in fraud,” and had to satisfy the strict pleading requirements of Rule 9(b).⁵¹⁹ For
2 these claims, the court held:⁵²⁰

3 The plaintiffs have also adequately alleged that Facebook *intended to defraud its*
4 *users* regarding this conduct: the plaintiffs contrast Facebook’s *public-facing*
5 *statements about protecting privacy* and restricting information-sharing with the
6 *reality of Facebook’s alleged practices*, and that contrast is a sufficient basis from
7 which to infer fraudulent intent at the pleading stage.

6 2. The Court of Chancery of the State of Delaware

7 481. On May 30, 2019, Vice Chancellor Joseph R. Slight of the Delaware Court of
8 Chancery (the “Delaware Court”) issued an opinion in the action captioned *In re Facebook, Inc.*
9 *Section 220 Litig.* (the “Delaware Opinion”). In the Delaware Opinion, “[a]fter carefully reviewing
10 the evidence and the arguments of counsel” submitted in a one-day trial, the Delaware Court
11 concluded that the plaintiffs there had “demonstrated, by a preponderance of the evidence, a credible
12 basis [to] infer that *wrongdoing occurred at the Board level in connection with data privacy*
13 *breaches*” by Facebook and its executives. Thus, the Delaware Court ordered Facebook to produce
14 certain books and records documents sought by the plaintiffs.

15 482. In reaching this conclusion, the Delaware Court relied on evidence that Facebook and
16 its directors knowingly violated the FTC Consent Decree. For example, the Delaware Court found
17 evidence that Facebook’s Board of Directors “knew the Company had not implemented or
18 maintained” measures required by the FTC Consent Decree but “nevertheless condoned the
19 Company’s monetization of its users’ private data in violation of the Consent Decree.” Notably,
20 both defendants Zuckerberg and Sandberg sat on Facebook’s Board during the Class Period.

21 483. The Delaware Court further noted that the “Cambridge Analytica Scandal was
22 facilitated by Facebook’s policies” and it “would not have happened” if Facebook had complied with
23 the FTC Consent Decree. The Delaware Court also explained that Facebook’s practice of entering
24 into so-called “whitelist” agreements with device manufacturers, providing the latter with “the
25 personal data of hundreds of millions of [Facebook’s] users” without user consent or knowledge.

26 ⁵¹⁹ *Id.* at *37.

27 ⁵²⁰ *Id.*

1 Specifically, the Delaware Court found evidence that Facebook gave these “whitelisted” device
2 makers “unauthorized access to the Facebook platform and Facebook’s user data for a substantial
3 fee” but “[a]ll the while, its users were left in the dark.”

4 484. The Delaware Court also relied on evidentiary-based conclusions by the United
5 Kingdom’s Parliamentary Committee that “emails from Zuckerberg and Sandberg” showed that
6 “*Facebook ‘intentionally and knowingly’ violated both data privacy and competition laws.*”
7 Indeed, the Delaware Court cited the U.K. Parliamentary Committee’s conclusion that Facebook’s
8 Board – which as noted above included both defendants Zuckerberg and Sandberg – “was aware of
9 data privacy breaches but attempted to ‘deflect attention’ from those breaches to avoid scrutiny.”
10 The Delaware Court also found a “credible basis to infer [Facebook’s] Board knew the Company
11 was allowing unauthorized third-party access to user data.”

12 485. Finally, the Delaware Opinion discusses the fact that, in July 2018, Facebook suffered
13 “one of the sharpest single-day market value declines in history when its stock price dropped 19%,
14 wiping out \$120 billion of shareholder wealth.” The Court concluded that this “unprecedented
15 misfortune followed new reports that, in 2015, the private data of 50 million Facebook users had
16 been poached by Cambridge Analytica.”

17 3. The Superior Court of the District of Columbia

18 486. On May 31, 2019, the Honorable Fern Flanagan Saddler of the Superior Court of the
19 District of Columbia (the “D.C. Court”) released an opinion (the D.C. Opinion”) in the action
20 captioned *District of Columbia v. Facebook, Inc.*, No. 2018 CA 8715B (D.C. Sup. Ct.). The D.C.
21 Opinion also authorized discovery into Facebook’s privacy practices and potential misconduct,
22 based on the D.C. Court’s conclusion that the District of Columbia’s Office of the Attorney General
23 “allege[d] sufficient facts to demonstrate that Facebook’s alleged statements, actions, or omissions
24 could be interpreted . . . as material and misleading.”

1 **C. Defendants’ Privacy Violations and Misuse of User Data Are**
2 **Confirmed in Multiple Investigations by Other Nations**

3 **1. United Kingdom’s House of Commons Digital, Culture, Media**
4 **and Sport Committee**

5 487. On February 19, 2019, the Digital, Cultural, Media and Sport Committee (“DCMSC”
6 or the “Committee”) of the British House of Commons issued its “Disinformation and ‘fake news’:
7 Final Report” (the “Final Report”), a scathing condemnation of Facebook’s privacy practices and its
8 misuse of user data. The DCMSC concluded, “[I]t is evident that *Facebook intentionally and*
9 *knowingly violated both data privacy* and anti-competition laws.”⁵²¹ The Committee also concluded,
10 “The Cambridge Analytica scandal was facilitated by Facebook’s policies.”⁵²²

11 **2. Joint Investigation of Facebook, Inc. by the Privacy**
12 **Commissioner of Canada and the Information and Privacy**
13 **Commissioner for British Columbia**

14 488. On April 25, 2019, the Privacy Commissioner of Canada and the Information and
15 Privacy Commissioner for British Columbia (the “Commissions”) issued their Report of Findings
16 (“Report”), outlining the conclusions of their joint investigation into Facebook’s compliance with
17 Canada’s Personal Information Protection and Electronic Documents Act (“PIPEDA”) and British
18 Columbia’s Personal Information Protection Act (“PIPA”). The Commissions determined that
19 Facebook failed to protect the personal information of users from unauthorized disclosure.
20 Specifically, the Report concluded that: “(i) Facebook failed to obtain valid and meaningful consent
21 of installing users”; “(ii) Facebook also failed to obtain meaningful consent from friends of installing
22 users”; “(iii) Facebook had inadequate safeguards to protect user information”; and “(iv) Facebook
23 failed to be accountable for the user information under its control.”⁵²³

24
25 _____
26 ⁵²¹ U.K. Parliamentary Comm. Final Rep. at 41, 91.

27 ⁵²² *Id.* at 26.

28 ⁵²³ Joint Investigation of the Privacy Commissioner of Canada and the Information and Privacy
Commissioner for British Columbia, “Report of findings,” Overview (Apr. 25, 2019).

1 **D. Post-Class Period Events Confirm Defendants’ Privacy Violations and**
 2 **Misuse of User Data During the Class Period**

3 **1. Defendants’ Internal Investigation Reveals that “Tens of**
 4 **Thousands” of Apps Abused User Data**

5 489. On September 20, 2019, defendants announced an “update on our ongoing App
 6 Developer Investigation, which we began in March of 2018 as part of our response to the episode
 7 involving Cambridge Analytica.”⁵²⁴ The investigation concerned “apps that had access to large
 8 amounts of information before we changed our platform policies in 2014,” and Facebook revealed:
 9 “To date, this investigation has addressed *millions of apps*. Of those, *tens of thousands have been*
 10 *suspended for a variety of reasons* while we continue to investigate.” Specifically, Facebook
 11 investigated and suspended apps “for any number of reasons including *inappropriately sharing data*
 12 *obtained from us, making data publicly available* without protecting people’s identity or *something*
 13 *else that was in clear violation* of our policies.”⁵²⁵

14 490. Defendants noted that the banned apps came from about 400 developers, though they
 15 only identified a handful by name in the announcement. For instance, defendants announced that
 16 they banned an app called myPersonality, “which *shared information with researchers and*
 17 *companies* with only limited protections in place” – the exact same abuse of user data that triggered
 18 the Cambridge Analytica scandal. Facebook similarly suspended apps like Rankwave for failing to
 19 cooperate with its investigation, LionMobi and JediMobi for “infect[ing] users’ phones with
 20 malware in a profit-generating scheme,” and others for “using quiz apps to scrape users’ data off our
 21 platform.”⁵²⁶

22 491. As part of the App Developer Investigation, defendants announced:⁵²⁷

23 [W]e are far from finished. . . . We’ve also improved the ways we investigate and
 24 enforce against potential privacy policy violations that we find. . . .

24 ⁵²⁴ Ime Archibong, *An Update on Our App Investigation and Audit*, Facebook Newsroom (Sept. 20,
 25 2019).

26 ⁵²⁵ *Id.*

27 ⁵²⁶ *Id.*

28 ⁵²⁷ *Id.*

1 [We've made widespread improvements to how we evaluate and set policies for all
2 developers that build on our platforms. We've removed a number of APIs, the
3 channels that developers use to access various types of data. We've grown our teams
4 dedicated to investigating and enforcing against bad actors. This will allow us to, on
5 an annual basis, review every active app with access to more than basic user
6 information. And when we find violators, we'll take a range of enforcement actions.

* * *

7 And we will not allow apps on Facebook that request a disproportionate amount of
8 information from users relative to the value they provide.

9 492. While defendants' announcement was light on specifics, the same day, a state court in
10 Massachusetts unsealed documents in the Massachusetts Attorney General's investigation into
11 Facebook's potential violation of state consumer protection laws. The unsealed documents showed
12 that Facebook had suspended 69,000 apps – the majority of which Facebook flagged for failing to
13 cooperate with the investigation, and about 10,000 of which had potentially misappropriated users'
14 data.⁵²⁸

15 493. *The New York Times* described Facebook's announcement as “a tacit admission that
16 the scale of its data privacy issues was far larger than it had previously acknowledged. . . . The
17 disclosures about app suspensions renew questions about whether people's personal information on
18 Facebook is secure, even after the company has been under fire for more than a year for its privacy
19 practices.”⁵²⁹

20 **2. Defendants Revise Facebook's Business Model to Respect
21 Privacy and Reverse Their Prior Privacy Abuses**

22 494. In response to the privacy misconduct at issue in this case, throughout 2019,
23 defendants announced sweeping revisions to the Facebook platform that they intended would make
24 Facebook more “privacy-focused.”

25 495. On March 6, 2019, defendant Zuckerberg announced specifically that Facebook's
26 “vision and principles” would support a newly “privacy-focused messaging and social networking
27

28 ⁵²⁸ Kate Conger, Gabriel J.X. Dance & Mike Issac, *Facebook's Suspension of 'Tens of Thousands' of Apps Reveals Wider Privacy Issues*, N.Y. Times (Sept. 20, 2019).

⁵²⁹ *Id.*

1 platform.”⁵³⁰ In his statement on Facebook.com, Zuckerberg admitted that Facebook’s privacy
 2 practices had been too lax, stating: “I understand that many people don’t think Facebook can or
 3 would even want to build this kind of privacy-focused platform – because frankly we don’t currently
 4 have a strong reputation for building privacy protective services, and we’ve historically focused on
 5 tools for more open sharing.”⁵³¹ Zuckerberg committed to several principles around which
 6 Facebook “plann[ed] to rebuild more of our services,” including:⁵³²

- 7 • “People should have . . . clear control over who can communicate with them and
 8 confidence that no one else can access what they share.”
- 9 • “People’s private communications should be secure. End-to-end encryption prevents
 10 anyone – including us – from seeing what people share on our services.”
- 11 • “People . . . should not have to worry about what they share coming back to hurt
 12 them later. So we won’t keep messages or stories around for longer than necessary
 13 to deliver the service or longer than people want them.”
- 14 • “People should expect that we will do everything we can to keep them safe on our
 15 services within the limits of what’s possible in an encrypted service.”
- 16 • “People should be able to use any of our apps to reach their friends, and they should
 17 be able to communicate across networks easily and securely.”
- 18 • “People should expect that we won’t store sensitive data in countries with weak
 19 records on human rights like privacy and freedom of expression in order to protect
 20 data from being improperly accessed.”

21 496. Defendant Zuckerberg broached these issues again on Facebook’s earnings call for
 22 the first quarter of 2019 on April 24, 2019. He opened the call by reiterating his “privacy-focused
 23 vision for the future of social networking,” and he described the changes that Facebook would be
 24 implementing to “build[] this privacy-focused platform.”⁵³³ In addition, defendant Sandberg
 explained, “We’re making significant investments in safety and security while continuing to grow
 our community and our business. This quarter once again shows that we can do both. *As we*

25 ⁵³⁰ Mark Zuckerberg, *A Privacy-Focused Vision for Social Networking*, Facebook (Mar. 6, 2019).

26 ⁵³¹ *Id.*

27 ⁵³² *Id.*

28 ⁵³³ Q1 2019 Facebook, Inc., Earnings Call Tr. at 2 (Apr. 24, 2019).

1 *prepare to build more services around our privacy roadmap, we're changing the way we run the*
 2 *company. We are committed to earning back trust through the actions we take.* A key part of
 3 earning back trust is increasing transparency.”⁵³⁴

4 497. One week later, on April 30, 2019, Facebook held its annual F8 conference. In his
 5 keynote address on the first day of the conference, defendant Zuckerberg stated:⁵³⁵

6 Privacy gives us the freedom to be ourselves. . . . The future is private. This is the
 7 next chapter for our services. . . . Over time, I believe that a private social platform
 8 will be even more important in our lives than our digital town squares. So today,
 9 we're going to start talking about what this could look like as a product. . . . [H]ow
 we need to change how we run this company in order to build this. . . . I know that
 we don't exactly have the strongest reputation on privacy right now to put it lightly,
 but I'm committed to doing this well. . . .

10 498. At the F8 conference, defendants unveiled the privacy-focused redesign of
 11 Facebook's desktop website and mobile app. *The New York Times* described, “[T]he revisions add
 12 new features to promote group-based communications instead of News Feed, where people publicly
 13 post a cascade of messages and status updates. . . . And it unveiled a spare, stark white look for
 14 Facebook, a departure from the site's largely blue-tinted design. . . . The redesign is the most
 15 tangible sign of how the privacy scandals and user-data issues that have roiled Facebook are forcing
 16 change at the company.”⁵³⁶ In an interview with *The New York Times*, Zuckerberg explained that the
 17 platform's new features “will end up creating a more trustworthy platform.”⁵³⁷

18 **VI. Materially False and Misleading Statements and Omissions Made with** 19 **Scienter During the Class Period**

20 499. During the Class Period, Facebook, Zuckerberg, Sandberg, and Wehner violated the
 21 federal securities laws by knowingly or recklessly making untrue statements of material fact or
 22 omitting to state material facts necessary to make the statements made, in the light of the
 23 circumstances under which they were made, not misleading.

24 ⁵³⁴ *Id.* at 5.

25 ⁵³⁵ *Day 1 of F8 2019: Building New Products and Features for a Privacy-Focused Social Platform*,
 Facebook Newsroom (Apr. 30, 2019).

26 ⁵³⁶ Mike Issac, *Facebook Unveils Redesign as It Tries to Move Past Privacy Scandals*, N.Y. Times
 27 (Apr. 30, 2019).

28 ⁵³⁷ *Id.*

1 **A. Defendants Made Materially False and Misleading Statements**
 2 **Concerning Facebook Users’ “Control” over Their Data**

3 500. During the Class Period, defendants knowingly or recklessly made materially false
 4 and misleading statements concerning Facebook users’ control over their data and information,
 5 including the statements set forth below.

6 501. From the start of the Class Period through May 25, 2018, inclusive, under the heading
 7 “SHARING YOUR CONTENT AND INFORMATION, in its *Statement of Rights and*
 8 *Responsibilities* published on the Company’s corporate website, Facebook stated: “You own all of
 9 the content and information you post on Facebook, and *you can control how it is shared through*
 10 *your privacy and application settings.*”⁵³⁸

11 502. On October 12, 2017, during a public interview with Axios, Sandberg stated:⁵³⁹

12 [W]hen you share on Facebook you need to know *No one is going to get your*
 13 *data that shouldn’t have it.* That we’re not going to make money in ways that you
 14 would feel uncomfortable with off your data. And that *you’re controlling who you*
 15 *share with.* . . . Privacy for us is making sure that you feel secure, sharing on
 16 Facebook.

17 503. On November 1, 2017, during Facebook’s earnings call for the third quarter of 2017,
 18 Sandberg stated: “. . . the Facebook family of apps already applies the core principles in the [GDPR]
 19 framework because we built our services around transparency and control.”⁵⁴⁰

20 504. On January 23, 2018, during an appearance at the Facebook Gather Conference in
 21 Brussels, Belgium, Sandberg stated: “Our apps have long been focused on giving people
 22 *transparency and control*”⁵⁴¹

23 505. On January 31, 2018, during Facebook’s earnings call for the fourth quarter of 2017,
 24 Sandberg stated: “. . . the Facebook family of apps *already applies* the core principles in the GDPR
 25 framework, which are *transparency and control.*”⁵⁴²

26 ⁵³⁸ Facebook’s *Statement of Rights and Responsibilities* was published on Facebook’s corporate
 27 website starting on January 30, 2015 and ending May 25, 2018 inclusive.

28 ⁵³⁹ Mike Allen, *Exclusive interview with Facebook’s Sheryl Sandberg*, Axios (Oct. 12, 2017).

⁵⁴⁰ Q3 2017 Facebook, Inc. Earnings Call Tr. at 11 (Nov. 1, 2017).

⁵⁴¹ Facebook Gather Conference, Brussels, Belgium (Jan. 23, 2018).

1 506. On February 28, 2018, during an appearance at the Morgan Stanley Technology,
2 Media & Telecom Conference, Wehner stated: “So we think with transparency and **control**, we’re
3 set up well to be in a position where we’re compliant with GDPR when the regulation goes into
4 effect in May.”⁵⁴³

5 507. On March 16, 2018, in a post on its corporate website titled *Suspending Cambridge*
6 *Analytica and SCL Group From Facebook*, Facebook stated: “In 2014, after hearing feedback from
7 the Facebook community, we made an update to ensure that each person decides what information
8 they want to share about themselves, including their friend list. This is just one of the many ways **we**
9 **give people the tools to control their experience**. Before you decide to use an app, you can review
10 the permissions the developer is requesting and choose which information to share. You can manage
11 or revoke those permissions at any time.”⁵⁴⁴

12 508. On April 4, 2018, during a telephonic press conference with journalists and members
13 of the press, Zuckerberg stated: “[T]he main principles are, **you have control over everything you**
14 **put on the service**, and most of the content Facebook knows about you it [*sic*] because you chose to
15 share that content with your friends and put it on your profile.”⁵⁴⁵

16 509. On April 24, 2018, in a public post on Facebook.com, Facebook stated: “You’ve been
17 hearing a lot about Facebook lately and how your data is being used. While this information can
18 sometimes be confusing and technical, it’s important to know that **you are in control of your**
19 **Facebook**, what you see, what you share, **and what people see about you**.”⁵⁴⁶

20 510. On June 29, 2018, in its *Responses to the U.S. House of Representatives Energy and*
21 *Commerce Committee’s Questions for the Record*, Facebook stated: “We already show people what
22

23 ⁵⁴² Q4 2017 Facebook, Inc. Earnings Call Tr. at 9 (Jan. 30, 2018).

24 ⁵⁴³ Morgan Stanley Technology, Media & Telecom Conference Tr. at 9 (Feb. 28, 2018).

25 ⁵⁴⁴ Paul Grewal, *Suspending Cambridge Analytica and SCL Group From Facebook*, Facebook
Newsroom (Mar. 16, 2018).

26 ⁵⁴⁵ *Hard Questions: Q&A With Mark Zuckerberg on Protecting People’s Information*, Facebook
27 Newsroom (Apr. 4, 2018).

28 ⁵⁴⁶ *How to Take Control of Your Facebook*, Facebook Newsroom (Apr. 24, 2018).

1 apps their accounts are connected to and *allow them to control what data they've permitted those*
 2 *apps to use.*⁵⁴⁷

3 511. In the same document discussed immediately above, Facebook further stated:⁵⁴⁸

4 Privacy is at the core of everything we do, and our approach to privacy starts with
 5 *our commitment to transparency and control.* [. . .] Our approach to control is
 6 based on the belief that people should be able to choose who can see what they share
 and how their data shapes their experience on Facebook. *People can control the*
audience for their posts and the apps that can receive their data.

7 512. On April 10, 2018, during his live oral testimony before the Joint Commerce and
 8 Judiciary Committees of the U.S. Senate, Zuckerberg made the following statements:⁵⁴⁹

9 (a) “This is the most important principle for Facebook: Every piece of content
 10 that you share on Facebook, you own and you have *complete control* over who sees it and – and how
 11 you share it, and you can remove it at any time. That’s why every day, about 100 billion times a
 12 day, people come to one of our services and either post a photo or send a message to someone,
 13 because *they know that they have that control and that who they say it’s going to go to is going to*
 14 *be who sees the content.* And I think that that control is something that’s important that I think
 15 should apply to – to every service.”

16 (b) “That’s what the [Facebook] service is, right? It’s that you can connect with
 17 the people that you want, and you can share whatever content matters to you, whether that’s photos
 18 or links or posts, and *you get control over it.*”

19 (c) “The two broad categories that I think about are content that a person is[sic]
 20 chosen to share and that they have complete control over, they get to control when they put into the
 21 service, when they take it down, who sees it. And then the other category are data that are connected
 22 to making the ads relevant. *You have complete control over both.*”

23 (d) “Every person gets to *control who gets to see their content.*”
 24

25 ⁵⁴⁷ Facebook, Responses to House Energy and Commerce, Questions for the Record addressed
 26 Chairman Walden (June 29, 2018) at 9.

27 ⁵⁴⁸ *Id.* at 25.

28 ⁵⁴⁹ *Transcript of Mark Zuckerberg’s Senate hearing*, Wash. Post (Apr. 10, 2018).

1 (e) “But, Senator, the – your point about surveillance, I think that there’s a very
2 important distinction to draw here, which is that when – when organizations do surveillance[,]
3 people don’t have control over that. ***But on Facebook, everything that you share there[,] you have***
4 ***control over.***”

5 513. On April 11, 2018, during his live testimony before the U.S. House of
6 Representatives’ Energy and Commerce Committee, Zuckerberg stated:⁵⁵⁰

7 (a) “[. . .] on Facebook, you have control over your information.”

8 (b) “[. . .] every single time that you share something on Facebook or one of our
9 services, right there is a control in line, where you control who – who you want to share with.”

10 (c) “Congresswoman, giving people control of their information and how they
11 want to set their privacy is foundational to the whole service [on Facebook]. It’s not just a – kind of
12 an add-on feature, something we have to . . . comply with . . . ***all the data that you put in, all the***
13 ***content that you share on Facebook is yours. You control how it’s used.***”

14 514. On June 8, 2019, in its Responses to Additional Question from the Senate Commerce
15 Committee, Facebook stated: “Privacy is at the core of everything we do, and our approach to
16 privacy starts with our commitment to transparency and control. [. . .] Our approach to control is
17 based on the belief that people should be able to choose who can see what they share and how their
18 data shapes their experience on Facebook. People can control the audience for their posts and the
19 apps that can receive their data.”⁵⁵¹

20 515. The statements concerning user control set forth in ¶¶501-514, *supra*, were materially
21 false and misleading because, when they were made, Facebook users could not control their data,
22 including because:

23 (a) Defendants publicly stated in April 2014 that Facebook would stop providing
24 third parties with access to user friends’ data, but continued to secretly provide that data to numerous
25 third parties, including app developers, “whitelisted” third parties, mobile device makers and others;

26 ⁵⁵⁰ *Transcript of Zuckerberg’s appearance before House committee*, Wash. Post (Apr. 11, 2018).

27 ⁵⁵¹ Facebook, Responses to U.S. Senate Committee on the Judiciary, Questions for the Record
28 addressed Chairman Grassley (June 8, 2018) at 4.

1 (b) Defendants were overriding user privacy settings to provide user friends' data
2 to third parties;

3 (c) Defendants knew that bad actors were able to access data; and

4 (d) Defendants knew that users could not control their data that Facebook had
5 given to third parties without user knowledge or consent.

6 516. In addition, the FTC has confirmed that Facebook made materially false and
7 misleading statements concerning Facebook users' control over their data by charging that
8 Facebook's conduct, including during the Class Period, violated Parts I.B and I.C of the FTC
9 Consent Decree because Facebook misrepresented the extent to which users could "control the
10 privacy" of their data and the extent to which Facebook "makes or has made [user data] accessible to
11 third parties," respectively. In charging Facebook, the FTC relied on the fact that, *inter alia*,
12 "regardless of the privacy settings a user checked, Facebook continued to provide access to [user
13 data] to Whitelisted Developers" from at least the start of the Class Period through to at least June
14 2018.⁵⁵²

15 517. Facebook paid \$5 billion to settle the FTC's charges and stipulated that it "agrees that
16 the *facts alleged in the [FTC] Complaint will be taken as true* . . . in any subsequent civil litigation
17 by [the FTC] to enforce its rights . . ." to the \$5 billion penalty that Facebook was required to pay.⁵⁵³
18 Zuckerberg personally signed this stipulation on July 23, 2019.

19 518. The statements concerning user control set forth in ¶¶501-514, *supra*, were also
20 materially false and misleading because they omitted to state material facts necessary to make them,
21 in the light of the circumstances under which they were made, not misleading, including that:

22 (a) Users did not have control over their data on Facebook;

23 (b) Contrary to their public statements in April 2014 that Facebook would stop
24 providing third parties with access to user friends' data, defendants continued to secretly provide that

25

26

27 ⁵⁵² FTC Complaint at ¶174.

28 ⁵⁵³ Stipulated Order at 3, ¶I.E.

1 data to numerous third parties, including app developers, “whitelisted” third parties, mobile device
2 makers and others;

3 (c) Defendants were overriding user privacy settings to provide user friends’ data
4 to third parties;

5 (d) Bad actors were able to access data on Facebook; and

6 (e) Users could not control their data that Facebook had given to third parties
7 without user knowledge or consent.

8 **B. Defendants Made Materially False and Misleading Statements About**
9 **Respecting Users’ Privacy Settings**

10 519. On March 17, 2018, Facebook made the following statement and provided the
11 following information to a reporter for the *The Washington Post*, with the knowledge and
12 expectation that it would be communicated to the public, as it was on that date, “*We respected the*
13 *privacy settings that people had in place*. Privacy and data protections are fundamental to every
14 decision we make.”⁵⁵⁴

15 520. The statement set forth in ¶519, *supra*, was materially false and misleading because,
16 when it was made, Facebook did not respect the privacy settings that people had in place, including
17 because:

18 (a) Defendants publicly stated in April 2014 that Facebook would stop providing
19 third parties with access to user friends’ data, but continued to secretly provide that data to numerous
20 third parties, including app developers, “whitelisted” third parties, mobile device makers and others;

21 (b) Defendants were overriding user privacy settings to provide user friends’ data
22 to third parties; and

23 (c) Defendants knew that bad actors were able to access data.

24 521. In addition, the FTC has confirmed that this statement was materially false and
25 misleading because, in charging Facebook with violations of the FTC Consent Decree, the FTC
26 relied on the fact that, *inter alia*, “regardless of the privacy settings a user checked, Facebook

27 ⁵⁵⁴ Craig Timberg & Tony Romm, *Facebook May Have Violated FTC Privacy Deal, Say Former*
28 *Federal Officials, Triggering Risk Of Massive Fines*, Wash. Post (Mar. 18, 2018).

1 continued to provide access to [user data] to Whitelisted Developers” from at least the start of the
2 Class Period through to at least June 2018.⁵⁵⁵

3 522. Defendant Facebook paid \$5 billion to settle the FTC’s charges and stipulated that it
4 “agrees that the *facts alleged in the [FTC] Complaint will be taken as true* . . . in any subsequent
5 civil litigation by [the FTC] to enforce its rights . . .” to the \$5 billion penalty that Facebook was
6 required to pay.⁵⁵⁶ Zuckerberg personally signed this stipulation on July 23, 2019.

7 523. The statement set forth in ¶519, *supra*, was also materially false and misleading
8 because its omitted to state material facts necessary to make it, in the light of the circumstances
9 under which it was made, not misleading, including that:

- 10 (a) Defendants did not respect the privacy settings that people had in place;
11 (b) Defendants were overriding user privacy settings to provide user friends’ data
12 to third parties;
13 (c) Contrary to their public statements in April 2014 that Facebook would stop
14 providing third parties with access to user friends’ data, defendants continued to secretly provide that
15 data to numerous third parties, including app developers, “whitelisted” third parties, mobile device
16 makers and others; and
17 (d) Bad actors were able to access data on Facebook.

18 **C. Defendants Made Materially False and Misleading Statements**
19 **Concerning Risks to Facebook’s Business**

20 524. During the Class Period, defendants knowingly or recklessly made materially false
21 and misleading statements concerning the business risks facing Facebook, including the statements
22 set forth below.

23 525. On February 3, 2017, Facebook filed its annual report on Form 10-K for the fiscal
24 year ended December 31, 2016 with the SEC (the “2016 Form 10-K”), which was signed by
25 Zuckerberg, Sandberg and Wehner, among others, and made available on Facebook’s investor

26 _____
27 ⁵⁵⁵ FTC Complaint at ¶174.

28 ⁵⁵⁶ Stipulated Order at 3, ¶I.E.

1 relations website. Facebook’s 2016 Form 10-K included the following statements concerning risks
2 facing the Company:

3 (a) “Security breaches and improper access to or disclosure of our data or user
4 data, or other hacking and phishing attacks on our systems, *could* harm our reputation and adversely
5 affect our business”;

6 (b) “Any failure to prevent or mitigate security breaches and improper access to
7 or disclosure of our data or user data *could* result in the loss or misuse of such data, which could
8 harm our business and reputation and diminish our competitive position”;

9 (c) “We provide limited information to . . . third parties based on the scope of
10 services provided to us. However, *if* these third parties or developers fail to adopt or adhere to
11 adequate data security practices . . . our data or our users’ data *may be* improperly accessed, used, or
12 disclosed.”⁵⁵⁷

13 526. The statements quoted in ¶525, *supra*, were repeated or incorporated by reference into
14 Facebook’s other reports on Forms 10-K and 10-Q that the Company filed with the SEC during the
15 Class Period, including its quarterly reports filed on May 4, 2017 (the “1Q17 10-Q”), July 27, 2017
16 (the “2Q17 10-Q”), November 2, 2017 (the “3Q17 10-Q”), and its annual report filed on February 1,
17 2018 (the “2017 Form 10-K”), each of which was signed by Zuckerberg, Sandberg and Wehner,
18 among others, and made available on Facebook’s investor relations website.

19 527. The risk factor statements set forth in ¶¶525-526, *supra*, were materially false and
20 misleading because, when they were made because:

21 (a) Defendants did not disclose, but knew or recklessly disregarded, the fact that
22 Kogan had violated the Company’s policies by improperly transferring data relating to tens of
23 millions of Facebook users to Cambridge Analytica;

24 (b) Defendants misleadingly presented the potential for improper access to or
25 disclosure of user data as merely a hypothetical investment risk;

26

27

28 ⁵⁵⁷ FY 2016 Facebook, Inc. Form 10-K at 12-13 (Feb. 3, 2017).

1 (c) Defendants misleadingly presented the potential for misuse of user data as
2 merely a hypothetical investment risk;

3 (d) Defendants created the false impression that Facebook had not suffered a
4 significant episode of improper access to or disclosure of user data by a developer;

5 (e) Defendants created the false impression that Facebook had not suffered a
6 significant episode of misuse of user data by a developer;

7 (f) Defendants publicly stated in April 2014 that Facebook would stop providing
8 third parties with access to user friends' data, but continued to improperly provide access to that data
9 to numerous third parties, including app developers, "whitelisted" third parties, mobile device
10 makers and others, throughout the Class Period;

11 (g) Defendants were overriding user privacy settings to provide third parties with
12 improper access to user friends' data throughout the Class Period;

13 (h) Defendants knew that bad actors were able to access data;

14 (i) Defendants knew that bad actors Cambridge Analytica and its affiliates had
15 accessed the data;

16 (j) Defendants knew that Cambridge Analytica continued to make use of
17 improperly accessed data on Facebook's platform, including in high profile elections; and

18 (k) Defendants knew that bad actors, including Cambridge Analytica, had
19 provided false, mutually contradictory, and self-serving assurances and certifications, including
20 falsely assuring Facebook that those bad actors had never received improperly obtained data, had
21 never paid for such data, had never used such data, and had destroyed such data.

22 528. In addition, the SEC has confirmed that the statements set forth in ¶¶525-526, *supra*,
23 were materially misleading because it charged, *inter alia*, that:

24 (a) "In its quarterly and annual reports filed between January 28, 2016 and March
25 16, 2018 [*i.e.*, including those set forth above], Facebook did not disclose that a researcher [*i.e.*,
26 Kogan] had, in violation of the company's policies, transferred data relating to approximately 30
27
28

1 million Facebook users to Cambridge Analytica. Instead, Facebook misleadingly presented the
2 potential for misuse of user data as merely a hypothetical risk”;⁵⁵⁸

3 (b) “Facebook’s Risk Factor disclosures [including those set forth above]
4 misleadingly suggested that the company faced merely the risk of [user data] misuse and any harm to
5 its business that might flow from such an incident;”⁵⁵⁹ and

6 (c) “Facebook knew, or should have known, that its Risk Factor disclosures in its
7 annual reports on Form 10-K for the fiscal years ended . . . December 31, 2016 and December 31,
8 2017, and in its quarterly reports on Form 10-Q filed in . . . 2017 . . . were materially misleading.”⁵⁶⁰

9 529. The risk factor statements set forth in ¶¶525-526, *supra*, were also materially false
10 and misleading because they omitted to state material facts necessary to make them, in the light of
11 the circumstances under which they were made, not misleading, including that:

12 (a) Kogan had violated the Company’s policies by improperly transferring data
13 relating to tens of millions of Facebook users to Cambridge Analytica;

14 (b) Facebook had in fact suffered a significant episode of improper access to or
15 disclosure of user data caused by a developer;

16 (c) Facebook had in fact suffered a significant episode of misuse of user data
17 caused by a developer;

18 (d) Defendants publicly stated in April 2014 that Facebook would stop providing
19 third parties with access to user friends’ data, but continued to secretly provide that data to numerous
20 third parties, including app developers, “whitelisted” third parties, mobile device makers and others,
21 throughout the Class Period;

22 (e) Defendants were overriding user privacy settings to provide user friends’ data
23 to third parties throughout the Class Period;

24 (f) Defendants knew that bad actors were able to access data;

25 _____
26 ⁵⁵⁸ SEC Complaint at ¶6.

27 ⁵⁵⁹ *Id.* at ¶39.

28 ⁵⁶⁰ *Id.* at ¶44.

1 (g) Defendants knew that bad actors Cambridge Analytica and its affiliates had
2 accessed the data;

3 (h) Defendants knew that Cambridge Analytica continued to make use of
4 improperly accessed data on Facebook’s platform, including in high profile elections; and

5 (i) Defendants knew that bad actors, including Cambridge Analytica, had
6 provided false, mutually contradictory, and self-serving assurances and certifications, including
7 falsely assuring Facebook that those bad actors had received improperly obtained data, had never
8 paid for such data, had never used such data, and had destroyed such data.

9 530. Facebook’s 2016 Form 10-K also stated “Although *we have developed systems and*
10 *processes that are designed to protect our data and user data, to prevent data loss and to prevent*
11 *or detect security breaches*, we cannot assure you that such measures will provide absolute
12 security.”⁵⁶¹ This statement was repeated or incorporated by reference into the other reports on
13 Forms 10-K and 10-Q that Facebook filed with the SEC during the Class Period, including the 1Q17
14 10-Q, 2Q17 10-Q, 3Q17 10-Q, and the 2017 Form 10-K.

15 531. These statements were false and misleading for the reasons cited above, including that
16 they:

17 (a) Misleadingly presented the potential for improper access to or disclosure of
18 user data as merely a hypothetical investment risk;

19 (b) Defendants did not employ the “systems and processes” purportedly
20 developed to protect user data;

21 (c) Created the false impression that Facebook had not suffered a significant
22 episode of improper disclosure and misuse of user data.

23 532. The statement set forth in ¶530, *supra*, was also materially false and misleading
24 because it omitted to state material facts necessary to make it, in the light of the circumstances under
25 which it was made, not misleading, including that:

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28 ⁵⁶¹ FY 2016 Facebook, Inc. Form 10-K at 13 (Feb. 3, 2017).

1 (a) Kogan had violated the Company’s policies by improperly transferring data
2 relating to tens of millions of Facebook users to Cambridge Analytica;

3 (b) Facebook had in fact suffered a significant episode of improper access to or
4 disclosure of user data caused by a developer; and

5 (c) Facebook had in fact suffered a significant episode of misuse of user data
6 caused by a developer.

7 533. In addition, the 2016 Form 10-K also included the following statements concerning
8 the risks to the Company from a loss of user trust in Facebook’s ability to protect their privacy, as
9 could occur following public reports or investigations into breaches of those privacy policies, or the
10 Company’s past failures to address known breaches of those policies:

11 If we fail to retain existing users or add new users, or if our users decrease their level
12 of engagement with our products, our revenue, financial results, and business may be
significantly harmed.

13 The size of our user base and our users’ level of engagement are critical to our
14 success. Our financial performance has been and will continue to be significantly
15 determined by our success in adding, retaining, and engaging active users of our
16 products, particularly for Facebook and Instagram. We anticipate that our active user
17 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. . . .***

18 Any number of factors could potentially negatively affect user retention, growth, and
19 engagement, including if:

20 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.⁵⁶²

21 These statements were repeated or incorporated by reference into the other reports on Forms 10-K
22 and 10-Q that Facebook filed with the SEC during the Class Period, including the 1Q17 10-Q, 2Q17
23 10-Q, 3Q17 10-Q, and the 2017 Form 10-K.

24 534. These statements were false and misleading for the reasons cited above, including that
25 they:

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28 ⁵⁶² FY 2016 Facebook, Inc. Form 10-K at 8 (Feb. 3, 2017).

1 (a) Misleadingly presented the risks to Facebook’s business and reputation arising
2 from “concerns related to privacy and sharing, safety [and] security” as merely hypothetical
3 investment risks; and

4 (b) Created the false impression that Facebook had not suffered a significant
5 episode of improper disclosure and misuse of user data.

6 535. The statements set forth in ¶533, *supra*, were also materially false and misleading
7 because they omitted to state material facts necessary to make them, in the light of the circumstances
8 under which they were made, not misleading, including that:

9 (a) Kogan had violated the Company’s policies by improperly transferring data
10 relating to tens of millions of Facebook users to Cambridge Analytica;

11 (b) Facebook had in fact suffered a significant episode of improper access to or
12 disclosure of user data caused by a developer; and

13 (c) Facebook had in fact suffered a significant episode of misuse of user data
14 caused by a developer.

15 **D. Defendants Made Materially False and Misleading Statements**
16 **Concerning the Results of Facebook’s Investigation into Cambridge**
Analytica’s Data Misuse

17 536. During the Class Period, defendants knowingly or recklessly made materially false
18 and misleading statements concerning the results of Facebook’s investigation into Cambridge
19 Analytica’s data misuse.

20 537. On March 4, 2017, Facebook made the following statement through an authorized
21 spokesperson to reporters from *The Guardian* with the knowledge and expectation that it would be
22 communicated to the public, as it was on that date in an article titled: “Watchdog to launch inquiry
23 into misuse of data in politics,” “[o]ur investigation to date has not uncovered anything that suggests
24 wrongdoing with respect to Cambridge Analytica’s work on the [Brexit] and Trump campaigns.”⁵⁶³

25 538. On March 30, 2017, Facebook made the following statement through an authorized
26 spokesperson to a reporter from *The Intercept* with the knowledge and expectation that it would be

27 ⁵⁶³ Jamie Doward, Carolle Cadwalladr & Alice Gibbs, *Watchdog to launch inquiry into misuse of*
28 *data in politics*, *Guardian* (Mar. 4, 2017).

1 communicated to the public, as it was on that date in an article titled: “Facebook Failed To Protect
2 30 Million Users From Having Their Data Harvested By A Trump Campaign Affiliate,” “[o]ur
3 investigation to date has not uncovered anything that suggests wrongdoing” with respect to
4 Cambridge Analytica.⁵⁶⁴

5 539. The statements set forth in ¶¶537-538, *supra*, were materially false and misleading
6 because, when they were made because:

7 (a) Facebook did not disclose, but knew or recklessly disregarded, the fact that
8 Facebook had determined by no later than December 2015 that Kogan had violated the Company’s
9 policies by improperly transferring data relating to tens of millions of Facebook users to Cambridge
10 Analytica;

11 (b) Facebook’s investigation into the Cambridge Analytica matter had found
12 evidence of wrongdoing because Facebook had determined that Kogan violated Facebook’s policies
13 such as the prohibition on transferring or selling Facebook user data to other parties when he sold the
14 data of tens of millions of Facebook users to Cambridge Analytica;

15 (c) Facebook’s investigation into the Cambridge Analytica matter had found
16 evidence of wrongdoing because Facebook had determined that Cambridge Analytica violated
17 Facebook’s policies, such as the prohibition on transferring or selling Facebook user data to other
18 parties, when Cambridge Analytica, through SCL, bought the data of tens of millions of Facebook
19 users from GSR; and

20 (d) Facebook’s investigation into the Cambridge Analytica matter and direct work
21 with Cambridge Analytica as a Facebook advertiser during the U.S. elections revealed evidence of
22 wrongdoing because Facebook had determined that Cambridge Analytica continued to violate
23 Facebook’s policies by utilizing improperly obtained user data to target Facebook users for
24 disinformation and voter suppression advertisements on Facebook.

25 540. In addition, the SEC has confirmed that the statements set forth in ¶¶537-538, *supra*,
26 were materially misleading because it charged, *inter alia*, that:

27 ⁵⁶⁴ Mattathias Schwartz, *Facebook Failed To Protect 30 Million Users From Having Their Data*
28 *Harvested By A Trump Campaign Affiliate*, Intercept (March 30, 2017).

1 (a) “[W]hen asked by reporters in 2017 about its investigation into the Cambridge
2 Analytica matter, Facebook falsely claimed the company found no evidence of wrongdoing;”⁵⁶⁵ and

3 (b) “[I]n March 2017, Facebook’s communications group provided the following
4 quote to reporters: ‘Our investigation to date has not uncovered anything that suggests wrongdoing.’
5 This was misleading because Facebook had, in fact, determined that [Kogan’s] transfer of user data
6 to Cambridge violated the company’s Platform Policy.”⁵⁶⁶

7 541. The statements set forth in ¶¶537-538, *supra*, were also materially false and
8 misleading because they omitted to state material facts necessary to make them, in the light of the
9 circumstances under which they were made, not misleading, including that:

10 (a) Facebook had determined by no later than December 2015 that Kogan had
11 violated the Company’s policies by improperly transferring data relating to tens of millions of
12 Facebook users to Cambridge Analytica; and

13 (b) Facebook’s investigation into the Cambridge Analytica matter had found
14 evidence of wrongdoing.

15 **E. Defendants Made Materially False and Misleading Statements**
16 **Concerning Facebook’s Response to Instances of Data Misuse**

17 542. During the Class Period, defendants recklessly made materially false and misleading
18 statements concerning Facebook’s response to instances of data misuse.

19 543. On or about February 16, 2017, Facebook made the following statement and provided
20 the following information to *BuzzFeed News*, with the knowledge and expectation that it would be
21 communicated to the public, as it was on that date in an article titled *The Truth About The Trump*
22 *Data Team That People Are Freaking Out About*: “[A]s a general rule, Andy Stone, a Facebook
23 spokesperson, said, ‘*Misleading people or misusing their information is a direct violation of our*

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27 ⁵⁶⁵ SEC Complaint at ¶6.

28 ⁵⁶⁶ *Id.* at ¶49.

1 *policies and we will take swift action against companies that do*, including banning those
2 companies from Facebook *and requiring them to destroy all improperly collected data.*”⁵⁶⁷

3 544. On or about June 8, 2017, Facebook made the following statement and provided the
4 following information to Newsweek, with the knowledge and expectation that it would be
5 communicated to the public, as it was on that date in an article titled *How Big Data Mines Personal*
6 *Info to Craft Fake News and Manipulate Voters: “Misleading people or misusing their information*
7 *is a direct violation of our policies and we will take swift action against companies that do,*
8 including banning those companies from Facebook *and requiring them to destroy all improperly*
9 *collected data.*”⁵⁶⁸

10 545. Throughout the Class Period, under the heading “PROTECT DATA,” Facebook’s
11 Data Policy published on the Company’s corporate website stated the following concerning
12 Facebook’s response to instances of policy violations: “Enforcement is both automated and manual,
13 and can include disabling your app, restricting you and your app’s access to platform functionality,
14 *requiring that you delete data*, terminating our agreements with you or any other action that we
15 deem appropriate.”⁵⁶⁹

16 546. The statements about taking “swift action against companies that [misuse people’s
17 information]” in ¶¶543-545, *supra*, were materially misleading because, among other things,
18 Facebook did not take “swift action” when it learned that Kogan had improperly sold user data to
19 Cambridge Analytica. Instead, after learning that both Kogan and Cambridge Analytica had lied
20 about the nature of the data transferred to Cambridge Analytica and about all the data being deleted,
21 Facebook waited nearly one year (from June 2016 to April 2017) for a certification from SCL, which
22 did not mention Cambridge Analytica, reporting deletion of the purloined data.

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25 ⁵⁶⁷ Kendall Taggart, *The Truth About the Trump Data Team That People are Freaking Out About*,
BuzzFeed (Feb. 16, 2017).

26 ⁵⁶⁸ Nina Burleigh, *How Big Data Mines Personal Info to Craft Fake News and Manipulate Voters*,
27 Newsweek (June 8, 2017).

28 ⁵⁶⁹ Facebook Platform Policies (Jan. 11, 2017).

1 547. The statements about Facebook “requiring [data misusers] to destroy all improperly
2 collected data” or “requiring that [policy violators] delete data” in ¶¶543-545, *supra*, were materially
3 misleading because Facebook could not “require” data misusers to “destroy” or “delete” improperly
4 collected data. Facebook simply did not have the technical ability to “automat[ically]” “require”
5 deletion of misused user data. Defendants knew that once user data was in the hands of a third party
6 – Facebook had no ability to control that data or “require” that third party to do anything.

7 548. For example, even though Facebook *knew* that both Kogan and Cambridge Analytica
8 had lied about the nature of the data transferred to Cambridge Analytica and about whether all of the
9 data had been deleted, Facebook could do nothing to “require” deletion of the data. As such,
10 Facebook knowingly or recklessly relied on unsupported certifications from known liars stating that
11 the data had been deleted. Further, even when confronted with red flags that Cambridge Analytica
12 was still using the purloined data, Facebook had no ability to “require” destruction or deletion of the
13 data.

14 549. To be sure, as discussed above, Zuckerberg has admitted that Facebook’s failure to
15 follow-up on the Cambridge Analytica data misuse and require the data to be deleted was the
16 “biggest mistake[.]” Facebook ever made.⁵⁷⁰ Zuckerberg also admitted that Facebook “should have
17 been doing more all along” to protect users’ privacy. Sandberg also admitted that it was a “mistake
18 that [Facebook] did not verify” whether Cambridge Analytica had deleted the user data⁵⁷¹ and
19 acknowledged that the Company should have “checked”⁵⁷² and “follow[ed]-up”⁵⁷³ to ensure
20 Facebook user’s personal data was, in fact, protected. She stated that Facebook was “not focused
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22

23 ⁵⁷⁰ Nicholas Thompson, *Mark Zuckerberg Talks to Wired About Facebook’s Privacy Problem*,
24 *Wired* (Mar. 21, 2018).

25 ⁵⁷¹ *CNBC Exclusive: CNBC Transcript: Sheryl Sandberg Sits Down with CNBC’s Julia Boorstin*
Today, CNBC (Mar. 22, 2018).

26 ⁵⁷² Eun Kyung Kim, *Sheryl Sandberg on TODAY: Other Facebook data breaches ‘possible’*, *Today*
27 (Apr. 6, 2018).

28 ⁵⁷³ Steve Inskeep, *Full Transcript: Facebook COO Sheryl Sandberg On Protecting User Data*, NPR
(Apr. 5, 2018).

1 enough on the possible misuses of data” and “protecting people’s data” at the time.⁵⁷⁴ Sandberg has
 2 also admitted that Facebook “could have done . . . two and a half years ago” what it is doing
 3 today.⁵⁷⁵

4 550. The statements set forth in ¶¶543-545, *supra*, were also materially false and
 5 misleading because they omitted to state material facts necessary to make them, in the light of the
 6 circumstances under which they were made, not misleading, including that:

7 (a) Facebook did not take swift action against third parties who had misused user
 8 information; and

9 (b) Facebook could not and did not (especially under its selective enforcement for
 10 non-competing advertisers policy) “require” data misusers to “destroy” or “delete” improperly
 11 collected data.

12 551. On March 16, 2018, defendants posted a statement on Facebook.com entitled
 13 “Suspending Cambridge Analytica and SCL Group From Facebook,” which stated:

14 ***We are committed to vigorously enforcing our policies to protect people’s***
 15 ***information. We will take whatever steps are required to see that this happens.***
 16 We will take legal action if necessary to hold them responsible and accountable for
 any unlawful behavior.

17 * * *

18 On an ongoing basis, ***we also do a variety of manual and automated checks to***
 19 ***ensure compliance with our policies and a positive experience for users.*** These
 include steps such as random audits of existing apps along with the regular and
 proactive monitoring of the fastest growing apps.

20 ***We enforce our policies in a variety of ways – from working with developers to fix***
 21 ***the problem, to suspending developers from our platform, to pursuing litigation.***⁵⁷⁶

22 552. The statement about Facebook being “committed to vigorously enforcing our policies
 23 to protect people’s information” and take “whatever steps are required to see that this happens” in

24 ⁵⁷⁴ Judy Woodruff, *Sheryl Sandberg: Facebook ‘made big mistakes’ on protecting user data*, PBS
 25 (Apr. 5, 2018).

26 ⁵⁷⁵ Eun Kyung Kim, *Sheryl Sandberg on TODAY: Other Facebook data breaches ‘possible’*, Today
 (Apr. 6, 2018).

27 ⁵⁷⁶ Paul Grewal, *Suspending Cambridge Analytica and SCL Group From Facebook*, Facebook
 28 Newsroom (Mar. 16, 2018).

¶551, *supra*, was materially misleading because, among other things, Facebook did not “vigorously enforce [its] policies” and nor did it “take whatever steps are required” to do so when it learned that Kogan had improperly sold user data to Cambridge Analytica. Instead, after learning that both Kogan and Cambridge Analytica had lied about the nature of the data transferred to Cambridge Analytica and about all the data being deleted, Facebook waited nearly one year (from June 2016 to April 2017) for a certification from SCL, which did not mention Cambridge Analytica, reporting deletion of the purloined data.

553. Further, defendants did not require or confirm that the data had in fact been destroyed by Cambridge Analytica. Defendants knew that once user data was in the hands of a third party – Facebook had no ability to control that data or “require” that third party to do anything. As such, Facebook knowingly or recklessly relied on unsupported certifications from known liars stating that the data had been deleted. Further, even when confronted with red flags that Cambridge Analytica was still using the purloined data, Facebook had no ability to “require” destruction or deletion of the data.

554. The statement set forth in ¶551, *supra*, was also materially false and misleading because it omitted to state material facts necessary to make them, in the light of the circumstances under which it was made, not misleading, including that:

(a) Defendants did not “vigorously enforce [Facebook’s] policies” and nor did they “take whatever steps are required” against third parties who had misused user information; and

(b) Defendants did not require or confirm that the data sold to Cambridge Analytica had in fact been destroyed – even after Cambridge Analytica had been exposed as a liar and Facebook was confronted with multiple red flags that the data was not deleted.

F. Defendants Made Materially False and Misleading Statements Concerning Facebook Users Consenting to, or Knowingly, Providing Their Information to Kogan

555. On March 17, 2018, Facebook provided an addendum to Facebook’s March 16, 2018 statement posted on its corporate website (*see* ¶507, *supra*), which stated:

The claim that this is a data breach is completely false. Aleksandr Kogan requested and gained access to information from users who chose to sign up to his app, and everyone involved gave their consent. People knowingly provided their

1 **information**, no systems were infiltrated, and no passwords or sensitive pieces of
2 information were stolen or hacked.⁵⁷⁷

3 556. The above statement concerning user choice, consent and knowledge was materially
4 false and misleading because, when it was made, defendants knew that Kogan was one of the app
5 developers who was secretly grandfathered into the “user friends’ data” sharing program that
6 defendants had told the public was discontinued in April 2014. Thus, over 87 million Facebook
7 users who had their personal data harvested by Kogan due to defendants decision to continue to
8 secretly give Kogan access to user friend data did **not** “cho[o]se to sign up to his app” – indeed, they
9 did not even sign up at all. Nor did these users “g[i]ve their consent” or “knowingly provide[] their
10 information” to Kogan.

11 557. The statement set forth in ¶555, *supra*, was also materially false and misleading
12 because it omitted to state material facts necessary to make it, in the light of the circumstances under
13 which it was made, not misleading, including that:

14 (a) Kogan was one of the app developers who was secretly grandfathered into the
15 “user friends’ data” sharing program that defendants had told the public was discontinued in April
16 2014; and

17 (b) Over 86 million Facebook users who had their personal data harvested by
18 Kogan did **not** “cho[o]se to sign up to his app,” did **not** “g[i]ve their consent” and did **not**
19 “knowingly provide[] their information” to Kogan.

20 558. On March 21, 2018, Zuckerberg posted an update to his personal Facebook.com page,
21 which Facebook uses to disseminate public information regarding the Company,⁵⁷⁸ in which he
22 stated in part:

23 ***The good news is that the most important actions to prevent this from happening***
24 ***again today we have already taken years ago. . . . In 2014, to prevent abusive apps,***
we announced that we were changing the entire platform to dramatically limit the

25 ⁵⁷⁷ Paul Grewal, *Suspending Cambridge Analytica and SCL Group from Facebook*, Facebook
Newsroom (Mar. 16, 2018).

26 ⁵⁷⁸ Facebook stated in all its Class Period press releases announcing earnings results and guidance,
27 “Facebook uses the investor.fb.com and newsroom.fb.com websites as well as Mark Zuckerberg’s
28 Facebook Page (facebook.com/zuck) as means of disclosing material non-public information and for
complying with its disclosure obligations under Regulation FD.”

1 *data apps could access*. . . . In this case, we already took the most important steps a
 2 few years ago in 2014 to prevent bad actors from accessing people’s information in
 this way.⁵⁷⁹

3 559. The above statement was materially false and misleading when it was made because
 4 Zuckerberg knew that, after the purported 2014 changes, Facebook continued to secretly provide that
 5 user friend data to numerous third parties, including app developers, “whitelisted” third parties,
 6 mobile device makers and others. Zuckerberg also knew that Facebook was overriding user privacy
 7 settings to provide user friends’ data to third parties.

8 560. In addition, the FTC has confirmed that “Facebook continued to allow millions of
 9 third-party developers access to [user friends’ data] for at least one year.”⁵⁸⁰ The FTC Complaint
 10 notes that “Facebook did not disclose this fact to its users” – thereby depriving users of knowledge
 11 and the ability to consent to the disclosure of their data.⁵⁸¹ This conduct violated Parts I.B and I.C of
 12 the FTC Consent Decree, which prohibited Facebook from misrepresenting “the extent to which a
 13 consumer can control the privacy of [their personal information]” and “the extent to which
 14 [Facebook] makes or has made covered information accessible to third parties.”⁵⁸²

15 561. Facebook paid \$5 billion to settle the FTC’s charges and stipulated that it “agrees that
 16 the *facts alleged in the [FTC] Complaint will be taken as true* . . . in any subsequent civil litigation
 17 by [the FTC] to enforce its rights . . .” to the \$5 billion penalty that Facebook was required to pay.⁵⁸³
 18 Zuckerberg personally signed this stipulation on July 23, 2019.

19 562. The statement set forth in ¶558, *supra*, was also materially false and misleading
 20 because it omitted to state material facts necessary to make it, in the light of the circumstances under

21 _____
 22 ⁵⁷⁹ Mark Zuckerberg, Facebook (Mar. 21, 2018).

23 ⁵⁸⁰ FTC Complaint at ¶164.

24 ⁵⁸¹ *Id.* at ¶100. To the contrary, in September 2015, Facebook launched a “Privacy Checkup” tool
 25 as a means to help users “be in control” of their data and included a list of apps that users had
 26 installed. But this tool failed to list the apps that had access to user data based on their friends’
 consent and did not disclose that Facebook was continuing to share that data with “millions of third-
 party developers.” *Id.* at ¶¶101-105.

27 ⁵⁸² *Id.*, Count I at ¶¶160-165.

28 ⁵⁸³ Stipulated Order at 3, ¶I.E.

1 which it was made, not misleading, including that, after Facebook announced in April 2014 that
 2 access to “user friends’ data” was discontinued, Facebook continued to secretly provide that user
 3 friend data to numerous third parties, including app developers, “whitelisted” third parties, mobile
 4 device makers and others. Indeed, Facebook was even overriding users’ privacy settings in order to
 5 provide user friend data to these whitelisted third parties.

6 **G. Defendants Made Materially False and Misleading Statements**
 7 **Concerning Facebook’s Compliance with the 2012 FTC Consent**
 8 **Decree**

8 563. Throughout the Class Period, defendants recklessly made materially false and
 9 misleading statements concerning Facebook’s compliance with the FTC Consent Decree.

10 564. On February 2, 2017, Facebook filed its FY16 Form 10-K, which was signed by
 11 Zuckerberg, Sandberg and Wehner, among others, and made available on Facebook’s investor
 12 relations website. Facebook’s FY16 Form 10-K stated: “Violation of existing or future regulatory
 13 orders or *consent decrees* could subject us to substantial monetary fines and other penalties that
 14 could negatively affect our financial condition and results of operations.”⁵⁸⁴

15 565. Substantially similar statements were included in the MD&A sections of Facebook’s
 16 May 4, 2017 (1Q17), July 27, 2017 (2Q17) and November 2, 2017 (3Q17), reports on Form 10-Q
 17 and its February 1, 2018 (FY17 10-K) report on Form 10-K.

18 566. On July 26, 2017, in Facebook’s earnings call for the second quarter of 2017,
 19 Sandberg stated: “[W]e *respect local laws and regulations* Certainly, regulation is always an
 20 area of focus that we work hard to make sure that we are explaining our business clearly and making
 21 sure regulators know the steps we take to protect privacy as well *as making sure that we’re in*
 22 *compliance*.”⁵⁸⁵

23 567. On March 17, 2018, Facebook made the following statement and provided the
 24 following information to a reporter for *The Washington Post*, with the knowledge and expectation
 25

26 _____
 27 ⁵⁸⁴ FY 2016 Facebook, Inc. Form 10-K at 7 (Feb. 3, 2017).

28 ⁵⁸⁵ Q2 2017 Facebook, Inc. Earnings Call Tr. at 17 (July 26, 2017).

1 that it would be communicated to the public, as it was on that date, “*We reject any suggestion of*
2 *violation of the consent decree.*”⁵⁸⁶

3 568. On April 4, 2018, in a telephonic press conference with journalists and members of
4 the press, Zuckerberg stated: “You asked about the *FTC consent order. We’ve worked hard to*
5 *make sure that we comply with it.*”⁵⁸⁷

6 569. On April 5, 2018, in an interview on National Public Radio, Sandberg stated: “We’re
7 in constant conversation with the FTC, and *that consent decree was important, and we’ve taken*
8 *every step we know how to make sure we’re in accordance with it.*”⁵⁸⁸

9 570. On April 10, 2018, in his live testimony before the Joint Commerce and Judiciary
10 Committees of the U.S. Senate, Zuckerberg stated: “Our view is that – is that we believe that *we are*
11 *in compliance with the consent order*, but I think we have a broader responsibility to protect
12 people’s privacy even beyond that.”⁵⁸⁹

13 571. Defendants’ statements in ¶¶564-570, *supra*, were materially false and misleading
14 when made because they denied violations of the FTC Consent Decree – or presented such violations
15 as hypothetical risks – when defendants knew or recklessly disregarded the fact that Facebook was
16 violating Parts I.B and I.C of the FTC Consent Decree, including by:

17 (a) Publicly stating in April 2014 that Facebook would stop providing third
18 parties with access to user friends’ data, when they continued to secretly provide that data to
19 numerous third parties, including app developers, “whitelisted” third parties, mobile device makers
20 and others;

21 (b) Overriding user privacy settings to provide user friends’ data to third parties;
22 and

23 ⁵⁸⁶ Craig Timberg & Tony Romm, *Facebook May Have Violated FTC Privacy Deal, Say Former*
24 *Federal Officials, Triggering Risk Of Massive Fines*, Wash. Post (Mar. 18, 2018).

25 ⁵⁸⁷ *Hard Questions: Q&A With Mark Zuckerberg on Protecting People’s Information*, Facebook
26 Newsroom (Apr. 4, 2018).

27 ⁵⁸⁸ Steve Inskeep, *Full Transcript: Facebook COO Sheryl Sandberg On Protecting User Data*, NPR
(Apr. 5, 2018).

28 ⁵⁸⁹ *Transcript of Mark Zuckerberg’s Senate hearing*, Wash. Post (Apr. 10, 2018).

1 (c) Knowingly allowing bad actors to access data.

2 572. Indeed, the FTC has confirmed that Facebook knowingly violated Parts I.B and I.C of
3 the FTC Consent Decree, including because:⁵⁹⁰

4 At least tens of millions of American users relied on Facebook’s deceptive privacy
5 settings and statements to restrict the sharing of their information to their Facebook
6 Friends, when, in fact, third-party developers could access and collect their data
7 through their Friends’ use of third-party developers’ apps.

8 Facebook knew or should have known that its conduct violated the 2012 [Consent]
9 Order because it was ***engaging in the very same conduct that the [FTC] alleged was***
10 ***deceptive*** in Count one of the original Complaint that led to the 2012 [Consent]
11 Order.

12 573. In addition, the FTC has confirmed that Facebook made materially false and
13 misleading statements concerning Facebook users’ control over their data by charging that
14 Facebook’s conduct, including during the Class Period, violated Parts I.B and I.C of the FTC
15 Consent Decree because Facebook misrepresented the extent to which users could “control the
16 privacy” of their data and the extent to which Facebook “makes or has made [user data] accessible to
17 third parties,” respectively. In charging Facebook, the FTC relied on the fact that, *inter alia*,
18 “regardless of the privacy settings a user checked, Facebook continued to provide access to [user
19 data] to Whitelisted Developers” from at least the start of the Class Period through to at least June
20 2018.⁵⁹¹

21 574. Facebook paid \$5 billion to settle the FTC’s charges and stipulated that it “agrees that
22 the ***facts alleged in the [FTC] Complaint will be taken as true*** . . . in any subsequent civil litigation
23 by [the FTC] to enforce its rights . . .” to the \$5 billion penalty that Facebook was required to pay.⁵⁹²
24 Zuckerberg personally signed this stipulation on July 23, 2019.

25 575. The statements set forth in ¶¶564-570, *supra*, were also materially false and
26 misleading because they omitted to state material facts necessary to make them, in the light of the
27 circumstances under which they were made, not misleading, including that defendants knew or
28

26 ⁵⁹⁰ FTC Complaint at ¶9.

27 ⁵⁹¹ *Id.* at ¶174.

28 ⁵⁹² Stipulated Order at 3, ¶I.E.

1 recklessly disregarded the fact that Facebook was violating Parts I.B and I.C of the FTC Consent
2 Decree, including by:

3 (a) Stating publicly in April 2014 that Facebook would stop providing third
4 parties with access to user friends' data – but secretly continuing to provide that data to numerous
5 third parties, including app developers, “whitelisted” third parties, mobile device makers and others;

6 (b) Secretly overriding user privacy settings to provide user friends' data to third
7 parties; and

8 (c) Knowingly allowing bad actors to access data.

9 576. Facebook's 2016 Form 10-K also stated:

10 Affected users or government authorities could initiate legal or regulatory actions
11 against us in connection with any security breaches or *improper disclosure of data*,
12 which could cause us to incur significant expense and liability or result in orders or
13 *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.

14 This statement was repeated or incorporated by reference into the other reports on Forms 10-K and
15 10-Q that Facebook filed with the SEC during the Class Period, including the 1Q17 10-Q, 2Q17 10-
16 Q, 3Q17 10-Q, and the 2017 Form 10-K.

17 577. Defendants' statement above was materially false and misleading when made
18 because:

19 (a) It presented improper disclosures of data and violations of the FTC Consent
20 Decree as hypothetical risks when defendants knew or recklessly disregarded the fact that Facebook
21 was violating Parts I.B and I.C of the FTC Consent Decree; and

22 (b) The Company had suffered a significant episode involving an improper
23 disclosure of data.

24 578. The statement set forth in ¶576, *supra*, was also materially false and misleading
25 because it omitted to state material facts necessary to make it, in light of the circumstances under
26 which it was made, not misleading, including that:

27 (a) Defendants knew or recklessly disregarded the fact that Facebook was
28 violating Parts I.B and I.C of the FTC Consent Decree; and

1 (b) The Company had suffered a significant episode involving an improper
2 disclosure of data.

3 **H. Defendants Made Materially False and Misleading Statements**
4 **Concerning Notifying Facebook Users Whose Accounts Were**
5 **Compromised or at Risk of Being Compromised**

6 579. Throughout the Class Period, defendants made materially false and misleading
7 statements concerning providing notice to Facebook users whose accounts were compromised or at
8 risk of being compromised.

9 580. On April 27, 2017, Facebook published on its corporate website a document titled
10 *Information Operations and Facebook* to describe what it was doing to “help[] people protect their
11 accounts from compromise.”⁵⁹³ In this document, Facebook stated: “*We notify our users* with
12 context around the status of their account and actionable recommendations if we assess they are at
13 increased risk of future account compromise by sophisticated actors *or when we have confirmed*
14 *their accounts have been compromised.*”⁵⁹⁴

15 581. Facebook also stated that it would provide:⁵⁹⁵

16 (a) “*Notifications to specific people* if they have been targeted by sophisticated
17 attackers; with custom recommendations depending on the threat models”; and

18 (b) “*Proactive notifications to people* who have yet to be targeted, but whom we
19 believe may be *at risk* based on the behavior of particular malicious actors.”

20 582. The foregoing statements were materially false and misleading because, as defendants
21 knew or recklessly disregarded, defendants did not “notify” Facebook users whose accounts were
22 compromised or at risk of being compromised; did not provide “notifications to specific people”
23 whose accounts or data had been targeted or compromised; and did not provide “proactive
24 notifications to people” whose data may be at risk. On the contrary, the Company did not take any

25 ⁵⁹³ Jen Weedon, William Nuland and Alex Stamos, *Information Operations and Facebook*,
26 Facebook Newsroom at 7 (Apr. 27, 2017).

27 ⁵⁹⁴ *Id.* at 7 n.6.

28 ⁵⁹⁵ *Id.* at 7.

1 of these steps in response to the biggest data breach in its history – or with respect to any of the other
2 app developers who gained unauthorized access to user information.

3 583. In fact, Zuckerberg admitted in his Senate testimony that defendants made a
4 conscious decision *not* to notify the tens of millions of users whose data was compromised when
5 Kogan improperly sold that data to Cambridge Analytica.⁵⁹⁶

6 HARRIS: So there was a decision made on that basis not to inform the
7 users. Is that correct?

8 ZUCKERBERG: That’s my understanding. Yes.

9 Further, Zuckerberg admitted that he “got it wrong” and “didn’t do enough” in deliberately deciding
10 not to notify those users, which was a “huge mistake [and] [i]t was my mistake [*i.e.*, Zuckerberg’s
11 mistake].”⁵⁹⁷

12 584. Sandberg also acknowledged that defendants “have the responsibility *to disclose to*
13 *people when problems occur[]*,” admitting that the Company failed to meet its disclosure
14 responsibility with respect to the Cambridge Analytica data misuse.⁵⁹⁸ Further, when asked directly
15 whether Facebook should have timely disclosed that Facebook users’ data had been stolen, Sandberg
16 admitted, “[y]es, you are right and we should have done that Of course you are right, and we
17 should have done it.”⁵⁹⁹

18 585. The statements set forth in ¶¶580-584, *supra*, were also materially false and
19 misleading because they omitted to state material facts necessary to make them, in the light of the
20 circumstances under which they were made, not misleading, including that defendants did not notify
21 users whose accounts had been compromised or who were at risk of having their accounts
22 compromised, did not provide “notifications to specific people” whose accounts or data had been

23 ⁵⁹⁶ *Transcript of Mark Zuckerberg’s Senate hearing*, Wash. Post (Apr. 10, 2018).

24 ⁵⁹⁷ Interview by Laurie Segall with Mark Zuckerberg, CNN Business (Mar. 22, 2018); Toby
25 Shapshak, *It Was My Mistake Zuckerberg Admits, While Facebook Didn’t Do Enough To Prevent Abuse*, Forbes (Apr. 4, 2018).

26 ⁵⁹⁸ *CNBC Exclusive: CNBC Transcript: Sheryl Sandberg Sits Down with CNBC’s Julia Boorstin Today*, CNBC (Mar. 22, 2018).

27 ⁵⁹⁹ Eun Kyung Kim, *Sheryl Sandberg on TODAY: Other Facebook data breaches ‘possible’*, Today
28 (Apr. 6, 2018).

1 targeted or compromised; and did not provide “proactive notifications to people” whose data may be
2 at risk. On the contrary, the Company did not take any of these steps in response to the biggest data
3 breach in its history – or with respect to any of the other app developers who gained unauthorized
4 access to user information. On the contrary, Zuckerberg admitted that defendants made a conscious
5 decision *not* to notify the tens of millions of users whose data was compromised when Kogan
6 improperly sold that data to Cambridge Analytica. Defendants also later admitted that they “should
7 have” notified users whose accounts were compromised in the Cambridge Analytica scandal, but
8 they “didn’t do enough” to do so.

9 **I. Defendants Made Materially False and Misleading Statements**
10 **Concerning Facebook’s GDPR Compliance**

11 586. On October 12, 2017, during an interview with Axios, Sandberg stated: “Europe[] has
12 passed a single privacy law [*i.e.*, the GDPR] and *we are adhering to that*. But privacy is something
13 we take really seriously.”⁶⁰⁰

14 587. The statement set forth in ¶586, *supra*, was materially false and misleading because
15 Facebook was not at the time “adhering to” the GDPR. On the contrary, defendants were depriving
16 users of control over their data, were sharing it without knowledge or consent and, even worse, were
17 overriding users’ privacy settings when doing so.

18 588. The statement set forth in ¶586, *supra*, was also materially false and misleading
19 because it omitted to state material facts necessary to make it, in light of the circumstances under
20 which it was made, not misleading, including that Facebook was not adhering to the European
21 privacy law.

22 **J. Defendants Made Materially False and Misleading Statements**
23 **Concerning Use of Facebook’s Platform to Influence Elections**

24 589. In prepared remarks to the U.S. Senate Committee on the Judiciary Subcommittee on
25 Crime and Terrorism, and the U.S. House of Representatives Permanent Select Committee on
26 Intelligence delivered on October 31 and November 1, 2017 respectively, Facebook General Counsel
27 Stretch stated: “Though the volume of these posts was a tiny fraction of the overall content on

28 ⁶⁰⁰ Mike Allen, *Exclusive interview with Facebook’s Sheryl Sandberg*, Axios (Oct. 12, 2017).

1 Facebook, any amount is too much. Those accounts and Pages violated Facebook’s policies – which
2 is why we removed them, as we do with all fake or malicious activity we find.”⁶⁰¹

3 590. During his oral testimony before the House subcommittee on November 1, 2017,
4 Stretch participated in the following exchange with Representative Eric Swalwell and Twitter’s
5 Deputy General Counsel Sean Edgett:⁶⁰²

6 SWALWELL: Can each of you assure the American people that you have fully
7 searched your platforms and disclosed to this committee every
8 Russian effort to influence the 2016 election? Mr. Edgett?

9 EDGETT: *We’ve provided everything we have to date*, and we’re continuing to
10 look at this. So there will be more information that we share.

11 SWALWELL: Mr. Stretch?

12 STRETCH: *The same is true*, particularly in connection with, as I mentioned
13 earlier, some of the threat sharing that the companies are now
14 engaged in.

15 591. In response to a follow-up Question for the Record from U.S. Sen. Dianne Feinstein
16 delivered on January 8, 2018, Stretch further stated:⁶⁰³

17 Feinstein QFR #4: Facebook confirmed in the House Intelligence committee hearing
18 that they found no overlap in the groups targeted by the Trump campaign’s
19 advertisements, and the advertisements tied to the Russia-linked accounts identified
20 thus far. . . . *Does this assessment extend to both the content used and groups
21 targeted by the companies associated with the campaign – like Cambridge
22 Analytica – and Russian accounts?*

23 Stretch: *We have seen only what appears to be insignificant overlap* between the
24 targeting and content used by the IRA and that used by the Trump campaign
25 (including its third-party vendors). We are happy to schedule a meeting with your
26 staff to discuss our findings in more detail.

27 592. Each of these statements was materially false and misleading as a result of
28 defendants’ continuing omission to investigate or disclose the extent of the Cambridge Analytica

23 ⁶⁰¹ Social Media Influence in the 2016 US Elections: Hearing before the Select Comm. on
24 Intelligence, 115th Cong. (Nov. 1, 2017) at 6 (Prepared Testimony of Colin Stretch, General
25 Counsel, Facebook, Inc.).

26 ⁶⁰² Russia Investigative Task Force Hearing with Social Media Cos.: Hearing before the H. Rep.
27 Permanent Select Comm. on Intelligence, 115th Cong. (Nov. 1, 2017) at 54 (Testimony of Colin
28 Stretch, General Counsel, Facebook, Inc.).

⁶⁰³ Letter from Colin Stretch, General Counsel, Facebook, Inc. to Chairman Richard Burr, U.S.
Senate Select Committee on Intelligence at 8 (Jan. 8, 2018).

1 data breach, to notify affected users that their data had been compromised, or to reveal that the
2 Company had no reliable or reasonable basis on which to conclude that the data exposed by
3 Cambridge Analytica had been deleted or recovered, or was otherwise unavailable for use in
4 activities by foreign agents seeking to influence U.S. elections.

5 593. At the time the statement was made, defendants knew user data had repeatedly been
6 used to design effective political advertising, including by Cambridge Analytica, which was known
7 to have been actively working on behalf of the Trump campaign in the 2016 election. Defendants
8 also knew that Facebook had failed to recover or delete – or even fully investigate the extent of – the
9 Cambridge Analytica data breach. As a result, defendants knew or recklessly disregarded that their
10 testimony about the use of Facebook would be misleading in the absence of a disclosure of the risk
11 that the data of more than 50 million users that had previously been compromised was still available
12 and had been used in targeted political advertising to influence the outcome of the 2016 election.

13 594. By reason of their claimed investigation into and response to the 2015 report of the
14 data breach, as well as Facebook’s hiring of Chancellor to work in its headquarters, defendants knew
15 or recklessly disregarded that Kogan had worked closely with Russian operatives in the past, giving
16 rise to a heightened risk that data provided to Cambridge Analytica had been obtained by Russian
17 agents either before or after the data breach was originally reported. Russia’s likely targeting of and
18 use of the data exposed by Cambridge Analytica was obvious to anyone who had looked into the
19 matter, as defendants claimed to have done before they testified to Congress. For example, when the
20 Cambridge Analytica scandal was exposed in March 2018, Zuckerberg – in contrast to the testimony
21 above – readily acknowledged that Russia could have targeted the data that Facebook had failed to
22 recover or delete.⁶⁰⁴ Just months later the connection was confirmed by a Member of Parliament,
23 following that body’s investigation in the Cambridge Analytica scandal, further demonstrating the
24 connection was apparent and readily discoverable by those professing to have investigated the
25 matter.

26
27
28 ⁶⁰⁴ *Transcript of Mark Zuckerberg’s Senate hearing*, Wash. Post (Apr. 10, 2018).

1 **K. Defendants Made Materially False and Misleading Statements**
2 **Concerning DAU and MAU Metrics**

3 595. Facebook repeatedly touted its quarterly DAU and MAU metrics to assure investors
4 that users would remain engaged with its social media platforms, despite any concerns raised over
5 the privacy of their data. For example:

6 (a) On May 3, 2017, defendants published a press release entitled: “Facebook
7 Reports First Quarter 2017 Results,” in which they stated: “**Daily active users (DAUs)** – DAUs
8 were 1.28 billion on average for March 2017, an increase of 18% year-over-year. **Monthly active**
9 **users (MAUs)** – MAUs were 1.94 billion as of March 31, 2017, an increase of 17% year-over-
10 year.”⁶⁰⁵ The same day, Zuckerberg posted an update to his personal Facebook.com page, in which
11 he stated: “Our community now has more than 1.9 billion people, including almost 1.3 billion people
12 active every day.”⁶⁰⁶

13 (b) On July 26, 2017, defendants published a press release entitled: “Facebook
14 Reports Second Quarter 2017 Results,” in which they stated: “**Daily active users (DAUs)** – DAUs
15 were 1.32 billion on average for June 2017, an increase of 17% year-over-year. **Monthly active**
16 **users (MAUs)** – MAUs were 2.01 billion as of June 30, 2017, an increase of 17% year-over-
17 year.”⁶⁰⁷ The same day, Zuckerberg posted an update to his personal Facebook.com page, in which
18 he stated: “Our community is now more than 2 billion people, including more than 1.3 billion people
19 who use Facebook every day.”⁶⁰⁸

20 (c) On November 1, 2017, defendants published a press release entitled:
21 “Facebook Reports Third Quarter 2017 Results,” in which they stated: “**Daily active users (DAUs)**
22 – DAUs were 1.37 billion on average for September 2017, an increase of 16% year-over-year.
23 **Monthly active users (MAUs)** – MAUs were 2.07 billion as of September 30, 2017, an increase of

24 ⁶⁰⁵ Press Release, *Facebook Reports First Quarter 2017 Results*, Facebook Investor Relations (May 3, 2017).

25 ⁶⁰⁶ Mark Zuckerberg, Facebook (May 3, 2017).

26 ⁶⁰⁷ Press Release, *Facebook Reports Second Quarter 2017 Results*, Facebook Investor Relations
27 (July 26, 2017).

28 ⁶⁰⁸ Mark Zuckerberg, Facebook (July 26, 2017).

1 16% year-over-year.”⁶⁰⁹ The same day, Zuckerberg posted an update to his personal Facebook.com
 2 page, in which he stated: “Our community continues to grow, now with nearly 2.1 billion people
 3 using Facebook every month, and nearly 1.4 billion people using it daily. Instagram also hit a big
 4 milestone this quarter, now with 500 million daily actives.”⁶¹⁰

5 (d) On January 31, 2018, defendants published a press release entitled: “Facebook
 6 Reports Fourth Quarter and Full Year 2017 Results,” in which they stated: “**Daily active users**
 7 (**DAUs**) – DAUs were 1.40 billion on average for December 2017, an increase of 14% year-over-
 8 year. **Monthly active users (MAUs)** – MAUs were 2.13 billion as of December 31, 2017, an
 9 increase of 14% year-over-year.”⁶¹¹ The same day, Zuckerberg posted an update to his personal
 10 Facebook.com page, in which he stated: “Our community continues to grow with more than 2.1
 11 billion people now using Facebook every month and 1.4 billion people using it daily. Our business
 12 grew 47% year-over-year to \$40 billion.”⁶¹²

13 596. Defendants also touted their active monitoring of engagement and these metrics. For
 14 example:

15 (a) Wehner: “*We monitor the sentiment and engagement of people engaging in*
 16 *News Feed*. We’re really pleased with the strength of sentiment and engagement as we’ve ramped
 17 up News Feed ads.”⁶¹³

18 (b) Sandberg: “Because your experience on Facebook or Instagram is about the
 19 quality of what you see . . . what we do is *we monitor it carefully*. We ramp slowly. We monitor
 20
 21
 22

23 ⁶⁰⁹ Press Release, *Facebook Reports Third Quarter 2017 Results*, Facebook Investor Relations
 (Nov. 1, 2017).

24 ⁶¹⁰ Mark Zuckerberg, Facebook (Nov. 1, 2017).

25 ⁶¹¹ Press Release, *Facebook Reports Fourth Quarter and Full Year 2017 Results*, Facebook Investor
 26 Relations (Jan. 31, 2018).

27 ⁶¹² Mark Zuckerberg, Facebook (Jan. 31, 2018).

28 ⁶¹³ Q2 2014 Facebook, Inc. Earnings Call Tr. at 16 (July 23, 2014).

1 engagement sentiment, quality of ads. *We get a lot of feedback directly from people* who use
2 Facebook. . . . *And we just continue to monitor the metrics.*”⁶¹⁴

3 (c) Wehner: “Improving the quality and the relevance of the ads has enabled us to
4 show more of them, without harming the experience. And, our focus really remains on the
5 experience. So, *we’ll continue to monitor engagement and sentiment very carefully.*”⁶¹⁵

6 (d) Sandberg: “When we introduce ads into feed and continue to increase the ad
7 load, *we monitor really carefully. We’re looking at user engagement on the platform.* We also
8 look at the quality of ads.”⁶¹⁶

9 (e) Analyst: “Can you just talk about some of the biggest trends you’re
10 monitoring?” Wehner: “Yes, I can start with the stats. So on – yes, Mark, on the engagement front,
11 we’re seeing time spent growth per DAU across the Facebook family of apps and that includes
12 Facebook itself.”⁶¹⁷

13 (f) Wehner: “We have also increased our estimate for inauthentic accounts to
14 approximately 2% to 3% of worldwide MAUs. . . . *We continuously monitor* and aggressively take
15 down those accounts. These accounts tend to be less active and thus, we believe, impact DAU less
16 than MAU.”⁶¹⁸

17 597. The statements set forth in ¶¶595-596, *supra*, and the statistics provided therein, were
18 misleading in the context of the surrounding information, because privacy violations had been
19 deliberately concealed from users, such that their active engagement with the Company’s social
20 media platforms was not an accurate or reliable indicator of user response to privacy concerns.

21 598. The quarterly DAU and MAU metrics set forth above were materially false and
22 misleading for additional reasons. For instance, the DAU and MAU figures reported for Q1 2017

23 _____
24 ⁶¹⁴ Q3 2015 Facebook, Inc. Earnings Call Tr. at 15 (Nov. 4, 2015).

25 ⁶¹⁵ Q4 2015 Facebook, Inc. Earnings Call Tr. at 9 (Jan. 27, 2016).

26 ⁶¹⁶ *Id.* at 10.

27 ⁶¹⁷ Q1 2017 Facebook, Inc. Earnings Call Tr. at 9 (May 3, 2017).

28 ⁶¹⁸ Q3 2017 Facebook, Inc. Earnings Call Tr. at 7 (Nov. 1, 2017).

1 and Q2 2017 were materially false and misleading because, at the time, Facebook was using an
2 incorrect methodology to calculate duplicate accounts, which caused the Company to overstate
3 DAUs and MAUs and understate duplicate accounts. Facebook admitted to this reality on
4 November 1, 2017, when it implemented a “new methodology for duplicate accounts that included
5 improvements to the data signals we rely on to help identify such accounts.”⁶¹⁹

6 599. All of the above DAU and MAU figures were materially false and misleading
7 because they failed to account for the number of fake accounts on Facebook. In May 15, 2018,
8 Facebook announced for the first time that it had deleted a total of **1.277 billion fake accounts**
9 during the period from Q4 2017 to Q2 2018.

10 600. The statements set forth in ¶¶595-596, *supra*, were also materially false and
11 misleading because they omitted to state material facts necessary to make them, in the light of the
12 circumstances under which they were made, not misleading, including that defendants had
13 knowingly or recklessly misrepresented Facebook’s privacy practices, including by violating Parts
14 I.B and I.C of the FTC Consent Decree, which, when revealed, would (and did) erode user trust in
15 Facebook and cause a decline in daily and monthly active users. Further, given their privacy
16 misconduct, defendants omitted the fact that they knew or recklessly ignored that active user
17 engagement metrics were not accurate or reliable indicators of the health or strength of Facebook’s
18 business.

19 601. The statements set forth in ¶¶595-596, *supra*, were also materially false and
20 misleading because they omitted to state material facts necessary to make them, in the light of the
21 circumstances under which they were made, not misleading, including the fact that Facebook was
22 using an incorrect methodology to calculate duplicate accounts and the fact that hundreds of millions
23 of the accounts were fake. Indeed, Facebook eventually revealed that it had deleted a total of **1.277**
24 ***billion fake accounts*** during the period from Q4 2017 to Q2 2018.

25
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27
28 ⁶¹⁹ *Id.*

1 **L. Defendants Made Materially False and Misleading Statements**
2 **Concerning Facebook’s 1Q18 Financial Results and the Impact of the**
3 **Privacy Disclosures on Facebook’s Business**

4 602. On April 25, 2018, defendants published a press release entitled: “Facebook Reports
5 First Quarter 2018 Results,” in which they stated: “**Daily active users (DAUs)** – DAUs were 1.45
6 billion on average for March 2018, an increase of 13% year-over-year. **Monthly active users**
7 **(MAUs)** – MAUs were 2.20 billion as of March 31, 2018, an increase of 13% year-over-year.”⁶²⁰
8 The same day, Zuckerberg posted an update to his personal Facebook.com page, in which he stated:
9 “Despite facing important challenges, our community continues to grow. More than 2.2 billion
10 people now use Facebook every month and more than 1.4 billion people use it daily.”⁶²¹

11 603. The Company’s earnings release and 10-Q report highlighted the growth in MAUs
12 and DAUs as a sign of the success of its business, while its officers touted the strength of the
13 Company’s business as an indicator of the purported lack of meaningful impact resulting from the
14 controversy. “Despite facing important challenges, our community and business are off to a strong
15 start in 2018,” Zuckerberg told investors in Facebook’s first quarter of 2018 earnings release. On
16 April 25, 2018, during Facebook’s earnings call for the first quarter of 2018, Zuckerberg added that
17 “sharing and interaction” and other indicators of user engagement were increasing as a result of
18 changes in the platforms’ ranking and sharing algorithms. “[W]e’re optimistic about what we’re
19 seeing here,” he said. During the first quarter conference call, Wehner told investors that the first
20 quarter of 2018 results “demonstrated [that] growth in our business and global community remains
21 strong,” while telling them “we do not anticipate [that new European privacy regulations] will
22 significantly impact advertising revenues.”⁶²²

23 604. Even when defendants acknowledged impacts of the Cambridge Analytica data
24 scandal, they assured investors that any negative effect would be short-lived and manageable without
25 negative impact to the business. Wehner told investors on the earnings call that the increased

25 ⁶²⁰ Press Release, *Facebook Reports First Quarter 2018 Results*, Facebook Investor Relations (Apr.
26 25, 2018).

27 ⁶²¹ Mark Zuckerberg, Facebook (Apr. 25, 2018).

28 ⁶²² Q1 2018 Facebook, Inc. Earnings Call Tr. at 6, 7, 9 (Apr. 25, 2018).

1 spending needed to beef up data security programs in the wake of the scandal were already included
 2 in the first quarter of 2018 results, and the increase in the lower limit of the Company’s spending
 3 guidance simply reflected that it was “putting more” investment into that category “more quickly
 4 than we anticipated.” Sandberg allowed that a “handful” of advertisers had “paused spend”
 5 immediately after the Cambridge Analytica scandal broke, but encouraged investors to take an
 6 optimistic outlook by telling them that one of the advertisers that reduced spend “has already come
 7 back” and assuring investors that “we haven’t seen a meaningful trend or anything much since
 8 then.”⁶²³

9 605. On Facebook’s April 25, 2018 first quarter earnings call, Sandberg stated:⁶²⁴

10 Before going through our results, I want to take a minute to talk about ads and
 11 privacy. [. . .]

12 ***We also believe that people should control their advertising experience.*** For every
 13 ad we show, there’s an option to find out why you’re seeing that ad and to turn off
 ads from that advertiser entirely. And you can opt out of being targeted based on
 certain information like the websites you visit or your relationship status.

14 Advertising and protecting people’s information are not at odds. We do both.
 15 Targeted ads that respect people’s privacy are better ads. They show people things
 that they’re more likely to be interested in. We regularly hear from people who use
 Facebook that they prefer to see ads that are relevant to them and their lives.

16 Effective advertising is also critical to helping businesses grow.

17 * * *

18 ***In the coming months, GDPR will give us another opportunity to make sure people
 19 fully understand how their information is used by our services. It’s an EU
 20 regulation, but as Mark said a few weeks ago, we’re going to extend these controls
 21 to everyone who uses Facebook, regardless of where in the world they live. Our
 22 commitment to you is that we will continue to improve our ads model by
 strengthening privacy and choice while giving businesses of all sizes new and
 better tools to help them grow.***

23 * * *

24 ***Going forward, we will continue to focus on these 3 priorities and ensure that
 people’s privacy is protected on Facebook.***

25 606. On the same April 25, 2018 call, Wehner stated:⁶²⁵

26 _____
 27 ⁶²³ *Id.* at 8, 12.

28 ⁶²⁴ *Id.* at 4-6.

1 The changes that Mark and Sheryl described will, we believe, benefit our community
2 and our business and will serve to strengthen Facebook overall. At the highest level,
3 we believe that we can continue to build a great ads business while protecting
4 people's privacy.

* * *

5 So on GDPR, I think fundamentally, we believe we can continue to build a great ads
6 business while protecting the privacy of the people that use Facebook. As part of the
7 rollout of GDPR, we're providing a lot of control to people around their ad settings.
8 And we're committed, as Sheryl and Mark mentioned, to providing the same controls
9 worldwide. And while we don't expect these changes will significantly impact
10 advertising revenue, there's certainly potential for some impact. Any change of our
11 – of the ability for us and our advertisers to use data can impact our optimizational
12 potential at the margin, which could impact our ability to drive price improvements
13 in the long run. So we'll just have to watch how that plays out over time. I think it's
14 important to note that GDPR is affecting the entire online advertising industry. And
15 so what's really most important in winning budgets is our relative performance
16 versus other opportunities presented to marketers, and that's why it will be important
17 to watch kind of how this plays out at the industry level.

* * *

18 I don't know that we really see a doomsday scenario here. I think what we think is
19 that depending on how people react to the controls and the ad settings, there could be
20 some limitations to data usage. We believe that those will be relatively minor. But
21 depending on how broadly the controls are adopted and set, there is a potential to
22 impact targeting for our advertisers. Obviously, if they are less able to target
23 effectively, they'll get a lower ROI on their advertising campaigns. They'll then bid
24 differently into the auction. That ultimately will flow through into how we can
25 realize price on the impressions that we're selling. So I think that's the mitigating
26 issue that we could see, depending on how GDPR and our broader commitment to
27 providing these same controls worldwide could play out. We think that there is a
28 great case for not just our business but also for the user experience on Facebook to
have targeting because we think it's a better experience for the people who use
Facebook to have targeted ads. We think we can do that in a privacy-protected way,
and it's just a better experience. You get more relevant ads, and it's – and I think
overall benefits that only the advertisers but also the people who use Facebook. So I
don't think see a real doomsday scenario here. We see an opportunity to really make
the case.

607. Defendants' effort to tout the first quarter of 2018 results in a manner meant to assure
investors that the Cambridge Analytica data scandal had not, and would not, have a meaningful
financial impact on the business was misleading, because they knew or recklessly disregarded that
those results were not reflective of the true impact that disclosure of the Cambridge Analytica data
breach was having on the Company's business:

⁶²⁵ *Id.* at 6, 8, 15.

1 (a) To begin with, the quarterly results only included two weeks of user data post-
2 disclosure of the wider scope of the Cambridge Analytica data breach. Nevertheless, defendants,
3 who knew or recklessly disregarded that assessment of the true impact would become apparent in the
4 current quarter (based in part on their active monitoring of user engagement, *see* ¶596, assured
5 investors that the first quarter results were sufficient to conclude that the disclosures would not have
6 a meaningful financial impact.

7 (b) In addition, defendants concealed that the loss of advertisers was far more
8 significant than Sandberg’s “handful . . . one of whom has already come back” statement suggested.
9 For example, Italy’s biggest bank, UniCredit, had terminated all of its advertising and partnerships
10 with Facebook at the end of March as a result of the scandal. The action did not come to light until
11 August 2018, when *The Guardian* published an article about it.⁶²⁶ “Facebook is not acting in an
12 ethical way,” the bank’s CEO, Jean Pierre Mustier, told the newspaper. “We will not use it until it
13 has proper ethical behavior.” As revealed on the second quarter of 2018 earnings call, this was not
14 an isolated incident, as many other advertisers had similarly cut ties with Facebook, or reduced
15 spending on its platform.

16 (c) Finally, defendants knew that massive increases in spending would be
17 required to improve the security of user data and Facebook’s platform, which further made the first
18 quarter of 2018 results not reflective of the true impact that the data breach scandal would have on
19 Facebook’s financial condition and results.

20 608. Thereafter, defendants continued to mislead investors, analysts, users and others
21 about the risks of user dis-engagement and the financial impact of the disclosures about the
22 Company’s privacy practices. In numerous public comments, defendants falsely assured investors
23 that the privacy disclosures had not impacted, and could not reasonably be expected to impact the
24 Company’s business.

25
26
27 ⁶²⁶ Rupert Neate, *UniCredit cuts ties with Facebook over data breach scandal*, *Guardian* (Aug. 7,
28 2018).

1 609. On May 1, 2018, Zuckerberg gave his keynote address at Facebook's annual F8
2 Developer Conference. In that appearance, Zuckerberg stated:⁶²⁷

3 ***I also want to talk about data privacy.*** And what happened with Cambridge
4 Analytica was a major breach of trust. An app developer took data that people had
5 shared with them and sold it. So we need to make sure that this never happens again,
6 so we're taking a number of steps here.

7 First, as you all know we're restricting the data that developers will be able to request
8 from people. ***Now the good news here is that back in 2014, we already made a
9 major change to how the platform works to prevent people from sharing a lot of
10 their friends' information. So this specific situation could not happen again today.***

11 610. The above statements were materially misleading because they assured investors that
12 data breaches like the Cambridge Analytica scandal were behind the Company and the consequences
13 of that breach would be minimal because Facebook had been protecting privacy for years. In reality,
14 Facebook had not been protecting privacy and the consequences of Facebook's data protection
15 misconduct would not be fully revealed until July 25, 2018, when Facebook disclosed, *inter alia*,
16 heightened privacy-related expenses and declining active user figures.

17 611. In addition, the statements set forth in ¶609, *supra*, were materially false and
18 misleading because they omitted the following material facts necessary in order to make those
19 statements, in light of the circumstances under which they were made, not misleading: (i) Facebook
20 had violated the 2012 FTC Consent Decree; (ii) Facebook's privacy misconduct would impact the
21 Company's bottom line by destroying its reputation as a company that protected privacy and by
22 requiring the Company to incur billions in expenses to become privacy compliant, including with
23 respect to the GDPR; and (iii) as a result, Facebook's user numbers, revenue growth, operating
24 margins and business prospects would materially decline. Defendants' knowledge or reckless
25 disregard that these statements would be, and were, misleading to investors may be inferred from the
26 same facts that support a strong inference of scienter with respect to the assurances about Facebook's
27 purported commitment to enforcement of its privacy policies.

28 612. On May 31, 2018, Facebook held its Annual Stockholders Meeting. At this event,
Zuckerberg stated:⁶²⁸

⁶²⁷ F8 2018 Developer Conference Tr. at 9 (May 1, 2018).

1 So we recently went through this process of rolling out our flows and settings for
2 GDPR compliance, first, in Europe, and we're going to do it around the world. And
3 one of the settings that we ask people proactively to make a decision on is, do you
4 want your ads, for how we do ad targeting, to be informed by the other apps and
5 websites that you use? ***People have to proactively make a decision. Yes or no. Do
6 they want that data used? And the majority, I think we can even say vast majority
7 of people say, yes, they want that data used.*** Because if they're going to see ads,
8 you want to see good ads, right? So I think that this is one of the core questions that
9 society faces and individuals face across the different services that we use, are how
10 do we want our data to be used and where? . . . This is going to be a core thing that
11 we need to think about going forward, but we think about it very deeply as this is a –
12 just a core part of the value that we're trying to provide.

13 613. The above statement was materially misleading because: (i) it falsely and without a
14 reasonable basis assured investors that GDPR had not caused, and would not cause, a decline in
15 active use of Facebook's solid media platforms; and (ii) it portrayed Facebook as adhering to and
16 prepared to meet the requirements of the GDPR, when in reality Facebook was not.

17 614. In addition, the statements set forth in ¶612, *supra*, were materially false and
18 misleading because they omitted the following material facts necessary in order to make those
19 statements, in light of the circumstances under which they were made, not misleading: (i) Facebook
20 had violated the 2012 FTC Consent Decree; (ii) Facebook's privacy misconduct would impact the
21 Company' bottom line by destroying its reputation as a company that protected privacy and by
22 requiring the Company to incur billions in expenses to become privacy compliant, including with
23 respect to the GDPR; and (iii) as a result, Facebook's user numbers, revenue growth, operating
24 margins and business prospects would materially decline. Defendants' knowledge or reckless
25 disregard that these statements would be, and were, misleading to investors may be inferred from the
26 same facts that support a strong inference of scienter with respect to the assurances about Facebook's
27 purported commitment to enforcement of its privacy policies.

28 615. On June 8, 2018, Facebook provided additional responses to questions posed to the
Company by the members of the Senate Committee on Commerce, Science, and Transportation. In
their responses to these questions, defendants stated:⁶²⁹

628 Facebook, Inc., Annual Shareholders Meeting Tr. at 16-17 (May 31, 2018).

629 Facebook, Responses to U.S. Senate Committee on the Judiciary, Questions for the Record
addressed Chairman Grassley (June 8, 2018).

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Privacy is at the core of everything we do, and our approach to privacy starts with our commitment to transparency and control. Our threefold approach to transparency includes, first, whenever possible, providing information on the data we collect and use and how people can control it in context and in our products. Second, we provide information about how we collect and use data in our user agreements and related educational materials. And third, we enable people to learn more about the specific data we have about them through interactive tools such as Download Your Information, which lets people download a file containing data that they may want to take to another service, and Access Your Information, a tool we are launching that will let people more easily access and manage their data on Facebook.

Our approach to control is based on the belief that people should be able to choose who can see what they share and how their data shapes their experience on Facebook. People can control the audience for their posts and the apps that can receive their data. They can see and delete the history of their activities on Facebook, and, if they no longer want to use Facebook, they can delete their account and the data associated with it. Of course, we recognize that controls are only useful if people know how to find and use them. That is why we continuously deliver in-product educational videos in people’s News Feeds on important privacy topics. We are also inviting people to take our Privacy Checkup – which prompts people to review key data controls – and we are sharing privacy tips in education campaigns off of Facebook, including through ads on other websites. To make our privacy controls easier to find, we are launching a new settings menu that features core privacy settings in a single place. We are always working to help people understand and control how their data shapes their experience on Facebook.

* * *

Like many other free online services, we sell advertising space to third parties. Doing so enables us to offer our services to consumers for free. This is part of our mission to give people the power to build community and bring the world closer together.

* * *

We believe that everyone has the right to expect strong protections for their information, and that we also need to do our part to help keep our community safe, in a way that’s consistent with people’s privacy expectations.

616. On June 29, 2018, Facebook provided further responses to questions posed to the Company by the members of the Senate Committee on Commerce, Science, and Transportation. In their responses to these questions, defendants stated:⁶³⁰

We maintain our commitment to privacy by not telling advertisers who users are or selling people’s information to anyone. That has always been true. We think relevant advertising and privacy are not in conflict, and we’re committed to doing both well.

* * *

⁶³⁰ Facebook, Responses to House Energy and Commerce, Questions for the Record addressed Chairman Walden (June 29, 2018).

1 same facts that support a strong inference of scienter with respect to the assurances about Facebook’s
2 purported commitment to enforcement of its privacy policies.

3 **M. Defendants Made Materially False and Misleading Statements that**
4 **Facebook Does Not “Sell” Users’ Data**

5 620. Throughout the Class Period, defendants made materially false and misleading
6 statements that Facebook does not “sell” users’ data. In reality, defendants were using user friend
7 data as consideration for a reciprocal exchange of value with third-party app developers and other
8 companies who were “whitelisted” for secret access to user friend data. Thus, defendants engaged in
9 selling user friend data in exchange for reciprocal benefits. For defendants, “reciprocity” came in
10 various forms, including an exchange of data between an app developer and Facebook, by Facebook
11 requiring the third party to spend substantial sums on advertising at Facebook or by a third party
12 enhancing Facebook’s brand and platform to make it more attractive to users, as in the case of the
13 dozens of major phone device makers that Facebook whitelisted during the Class Period.

14 621. On or about November 27, 2017, defendants posted a notification on Facebook.com
15 titled “Our Advertising Principles,” in which they stated in relevant part: “*We don’t sell your data.*
16 We don’t sell personal information like your name, Facebook posts, email address, or phone number
17 to anyone. Protecting people’s privacy is central to how we’ve designed our ad system.”⁶³¹

18 622. On January 31, 2018, during Facebook’s earnings call for the second quarter of 2017,
19 Sandberg stated in relevant part, “These principles are our commitment to the people who use our
20 services. They are: We build for people first. *We don’t sell your data.*”⁶³²

21 623. On March 22, 2018, during an interview on the CNBC television program “Closing
22 Bell,” Sandberg again stated: “We provide a free service that’s an ad-based business model, and in
23 order to do that, *we do not sell your data.*”⁶³³

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25 ⁶³¹ Rob Goldman, *Our Advertising Principles*, Facebook Newsroom (Nov. 27, 2017).

26 ⁶³² Q4 2017 Facebook, Inc. Earnings Call Tr. at 6 (Jan. 31, 2018).

27 ⁶³³ *CNBC Exclusive: CNBC Transcript: Sheryl Sandberg Sits Down with CNBC’s Julia Boorstin*
28 *Today*, CNBC (Mar. 22, 2018).

1 624. On April 4, 2018, during a teleconference with members of the press, Zuckerberg
2 stated:⁶³⁴

3 There are other internet companies or data brokers or folks that might try to track and
4 sell data, ***but we don't buy and sell.*** [. . .] The second point, which I touched on
5 briefly there: for some reason ***we haven't been able to kick this notion for years that***
6 ***people think we will sell data to advertisers. We don't. That's not been a thing***
that we do. Actually it just goes counter to our own incentives. . . . And we're
going to use data to make those services better . . . but we're never going to sell your
information.

7 625. The same day, defendants posted a notification on Facebook.com titled: “We’re
8 Making Our Terms and Data Policy Clearer, Without New Rights to Use Your Data on Facebook,”
9 in which they stated in relevant part: “**What we share: We will never sell your information to**
10 **anyone.** We have a responsibility to keep people’s information safe and secure, and ***we impose***
11 ***strict restrictions on how our partners can use and disclose data.***”⁶³⁵

12 626. On April 5, 2018, Sandberg stated during an interview on National Public Radio: “It’s
13 a good opportunity to remind everyone what we say all the time, but we need to keep saying so
14 people understand it – which is that ***we don't sell data, period,*** . . . And again, we do not sell data,
15 ever.”⁶³⁶

16 627. The same day, during an interview with PBS NewsHour, Sandberg stated: “***We do***
17 ***not sell data*** or give your personal data to advertisers, ***period.***”⁶³⁷

18 628. On April 10, 2018, Zuckerberg appeared to testify before the Joint Commerce,
19 Science, and Transportation and Judiciary Committees of the United States Senate, during which he
20 stated: “I want to be clear. ***We don't sell information. So regardless of whether we could get***
21 ***permission to do that, that's just not a thing we're going to go do.***” Zuckerberg further stated:
22

23 ⁶³⁴ *Hard Questions: Q&A With Mark Zuckerberg on Protecting People’s Information*, Facebook
Newsroom (Apr. 4, 2018).

24 ⁶³⁵ Erin Egan and Ashlie Beringer, *We’re Making Our Terms and Data Policy Clearer, Without*
25 *New Rights to Use Your Data on Facebook*, Facebook Newsroom (Apr. 4, 2018).

26 ⁶³⁶ Steve Inskeep, *Full Transcript: Facebook COO Sheryl Sandberg On Protecting User Data*, NPR
(Apr. 5, 2018).

27 ⁶³⁷ Judy Woodruff, *Sheryl Sandberg: Facebook ‘made big mistakes’ on protecting user data*, PBS
28 (Apr. 5, 2018).

1 “Well, Senator, once again, *we don’t sell any data to anyone. We don’t sell it to advertisers, and*
2 *we don’t sell it to developers.*” During the same hearing, Zuckerberg stated: “*We don’t sell data to*
3 *anyone.*”⁶³⁸

4 629. On April 11, 2018, Zuckerberg appeared before the Energy and Commerce
5 Committee of the United States House of Representatives, during which hearing he stated: “Mr.
6 Chairman, *you’re right that we don’t sell any data.* . . . There is a common misperception, as you
7 say, that is just reported – often keeps on being reported, that, for some reason, we sell data. *I can’t*
8 *be clearer on this topic. We don’t sell data.*” And he reiterated, “*Congressman, we don’t sell*
9 *people’s data.* So I think that’s an important thing to clarify up front.”⁶³⁹

10 630. On April 25, 2018, during Facebook’s earnings call for the first quarter of 2018:⁶⁴⁰

11 (a) Zuckerberg stated: “We use the information you provide and that we receive
12 from websites to target ads for advertisers, but we don’t tell them who you are. *We don’t sell your*
13 *information to advertisers or anyone else.*”

14 (b) Sandberg stated: “*At Facebook, we have always built privacy protection into*
15 *our ads system.* . . . *We don’t sell your information to advertisers or anyone else.*”

16 631. On May 24, 2018, defendants posted to Facebook.com their follow up to
17 Zuckerberg’s testimony before the European Parliament, in which they stated in relevant part, “We
18 don’t tell advertisers who you are; and *we don’t sell your data.*”⁶⁴¹

19 632. On June 29, 2018, defendants filed written responses to additional questions posed to
20 them by the Energy and Commerce Committee of the U.S. House of Representatives, in which they
21 stated: “*Facebook does not sell people’s information to anyone, and we never will.*” Defendants
22 further stated: “When the individual is a Facebook user, we are also able to use this information to
23 personalize their experiences on Facebook, whether or not they are logged out, but we will not target

24
25 ⁶³⁸ Transcript of Mark Zuckerberg’s Senate Hearing, Wash. Post (Apr. 10, 2018).

26 ⁶³⁹ *Id.*

27 ⁶⁴⁰ Q1 2018 Facebook, Inc. Earnings Call, Tr. at 4 (Apr. 25, 2018).

28 ⁶⁴¹ Facebook Brussels, *Follow-up questions from EP* (May 24, 2018).

1 ads to users relying on this information unless the user allows this in their privacy settings. *We*
2 *don't sell or share this information with third parties.*"⁶⁴²

3 633. On July 18, 2018, in an interview with Recode, Zuckerberg stated: "*We don't sell*
4 *data*. . . . So while it may seem like a small difference to you, this distinction on "selling data," I
5 actually think to people it's like the whole game, right? *So we don't sell data, we don't give the*
6 *data to anyone else*, but overwhelmingly people do tell us that if they're going to see ads on
7 Facebook, they want the ads to be relevant; they don't want bad ads."⁶⁴³

8 634. Defendants' statements in ¶¶621-633, *supra*, were materially false and misleading
9 when made. In reality, defendants were using user friend data as consideration for a reciprocal
10 exchange of value with third-party app developers and other companies who were "whitelisted" for
11 secret access to user friend data. Thus, defendants engaged in selling user friend data in exchange
12 for reciprocal benefits. For defendants, "reciprocity" came in various forms, including an exchange
13 of data between an app developer and Facebook, by Facebook requiring the third party to spend
14 substantial sums on advertising at Facebook or by a third party enhancing Facebook's brand and
15 platform to make it more attractive to users, as in the case of the dozens of major phone device
16 makers that Facebook whitelisted during the Class Period.

17 635. Indeed, as noted by Slate, Facebook's whitelisting "private agreements were
18 conditional on the third party sending over its own valuable user data to Facebook, or on the
19 company making big advertising purchases with Facebook," which constitutes a "business in selling
20 or bartering data."⁶⁴⁴

21 636. Defendants' statements in ¶¶621-633, *supra*, were also materially false and
22 misleading because they omitted to state material facts necessary to make them, in the light of the
23 circumstances under which they were made, not misleading, including the fact that defendants were

24 _____
25 ⁶⁴² Facebook, Responses to House Energy and Commerce, Questions for the Record addressed
Chairman Walden (June 29, 2018) at 62.

26 ⁶⁴³ Kara Swisher, *Full Transcript: Facebook CEO Mark Zuckerberg on Recode Decode*, Recode
27 (July 18, 2018).

28 ⁶⁴⁴ Elena Botella, *Facebook Earns \$132.80 From Your Data Per Year*, Slate (Nov. 15, 2018).

1 using user friend data as consideration for a reciprocal exchange of value with third-party app
 2 developers and other companies who were “whitelisted” for secret access to user friend data. Thus,
 3 defendants engaged in selling user friend data in exchange for reciprocal benefits. For defendants,
 4 “reciprocity” came in various forms, including an exchange of data between an app developer and
 5 Facebook, by Facebook requiring the third party to spend substantial sums on advertising at
 6 Facebook or by a third party enhancing Facebook’s brand and platform to make it more attractive to
 7 users, as in the case of the dozens of major phone device makers that Facebook whitelisted during
 8 the Class Period.

9 **N. Additional False and Misleading Statements**

10 637. Lead Plaintiffs acknowledge that the Court’s August 7, 2019 Order Granting
 11 Defendants’ Motion to Dismiss with Leave to Amend (ECF No. 137) (the “MTD Order”) found the
 12 following statements not to have been false and misleading. For the avoidance of doubt, Lead
 13 Plaintiffs stand on the prior allegations in their Second Amended Consolidated Class Action
 14 Complaint (ECF No. 123) and preserve their right to appeal these dismissed statements.

15 **1. Statements in Facebook’s September 29, 2016 Privacy Policy**

16 638. Among the Privacy Policies publicized by Facebook that, read in conjunction with the
 17 risk warnings, caused investors to be misled were the following: “PROMOTE SAFETY AND
 18 SECURITY. We use the information we have to help verify accounts and activity, and to promote
 19 safety and security on and off of our Services, such as by investigating suspicious activity or
 20 violations of our terms or policies.”⁶⁴⁵

21 639. The Privacy Policy additionally stated: “We work hard to protect your account using
 22 teams of engineers, automated systems, and advanced technology such as encryption and machine
 23 learning.”⁶⁴⁶

26 ⁶⁴⁵ Facebook Data Policy (Sept. 29, 2016) (The Court’s MTD Order identified this statement as
 27 Statement 3).

28 ⁶⁴⁶ *Id.* (The MTD Order identified this statement as Statement 4.).

1 640. The Privacy Policy additionally stated: “These partners must adhere to strict
2 confidentiality obligations in a way that is consistent with this Data Policy and the agreements we
3 enter into with them.”⁶⁴⁷

4 641. The foregoing privacy policies were misleading in and of themselves because
5 defendants failed to disclose that Facebook had repeatedly failed to adhere to them. As a result, the
6 magnitude of the risks facing the Company from negative press reports, government and regulatory
7 investigations, and user disengagement arising from disclosure of the massive amount of user data
8 that had already been compromised was materially and substantially greater than investors
9 understood based on the information available at the time the risk warnings were provided.

10 642. For example, contrary to the assurance that Facebook “investigat[ed] suspicious
11 activity or violations of our terms or policies,” the Company had deliberately ignored information
12 brought to its attention about such risks and violations. In particular, during the Class Period,
13 defendants were still concealing that they had failed to fully or promptly investigate or address the
14 Cambridge Analytica data breach, and continued to cover up the fact that the Company had
15 repeatedly failed to respond to, and had deliberately ignored, thousands of reports of violations of its
16 terms of use and policies regarding user data. Defendants were also knowingly or recklessly
17 providing unauthorized access to user friend data to numerous third parties, including app
18 developers, whitelisted third parties and others.

19 643. Contrary to the assertion that defendants “work hard to protect your account using
20 teams of engineers, automated systems, and advanced technology,” the Company had no ability to
21 track the user data provided to developers or others, much less any ability to determine whether that
22 information had been used or shared beyond the extent authorized by the user, or what user data had
23 been compromised, who had it, or how it was being used. In particular, during the Class Period, the
24 Company was still concealing that it was unaware of how much data had been compromised or how
25 many users had been affected by the Cambridge Analytica data breach, or what other developers or
26 third parties had improperly accessed, used or distributed user data, or where or how any of that data

27
28 ⁶⁴⁷ *Id.* (The MTD Order identified this statement as Statement 5.).

1 was being used. Defendants were also knowingly or recklessly providing unauthorized access to
2 user friend data to numerous third parties, including app developers, whitelisted third parties and
3 others.

4 644. Contrary to the warning to app developers that the Company would enforce its
5 Platform Policies to prevent app developers from selling or transferring user data, or from using their
6 customers' friend data outside of their customer's use of the app, Facebook had failed to make any
7 effort to verify that user data compromised in the Cambridge Analytica data breach had been
8 deleted, and its enforcement of the Platform Policies regarding user data was limited, haphazard and
9 inconsistent. Defendants were also knowingly or recklessly providing unauthorized access to user
10 friend data to numerous third parties, including app developers, whitelisted third parties and others.

11 645. Contrary to the assertions that the Company's vendors, service providers and other
12 partners "must adhere to strict confidentiality obligations in a way that is consistent with"
13 Facebook's terms of use and privacy policies, and that the Company "require[s] applications to
14 respect [user] privacy, and [the user's] agreement with that application will control how the
15 application can use, store, and transfer that content and information," or that the Company expected
16 app developers and others to protect user's rights by making it clear what information is being
17 collected and how it is being used, Facebook had repeatedly ignored information brought to its
18 attention about violations of those policies, and repeatedly authorized developers and others to use
19 information in ways that were directly contrary to those policies. Defendants were also knowingly
20 or recklessly providing unauthorized access to user friend data to numerous third parties, including
21 app developers, whitelisted third parties and others.

22 646. Defendants' knowledge or reckless disregard that these statements would be, and
23 were, misleading to investors may be inferred from the same facts that support a strong inference of
24 scienter with respect to the assurances about Facebook's purported commitment to enforcement of
25 its privacy policies.

26 647. Further, the statements set forth above were materially false and misleading because
27 they omitted the following material facts necessary in order to make those statements, in light of the
28 circumstances under which they were made, not misleading: (i) the Company had knowingly or

1 recklessly allowed third parties other than Cambridge Analytica and its affiliates to harvest and
 2 misuse users' data without their knowledge or consent; (ii) Facebook had taken no action against
 3 those other malicious actors upon learning that user data had been compromised in violation of
 4 Facebook's terms of service; (iii) Facebook had waited six months before asking Cambridge
 5 Analytica and other entities to certify that all user data had been destroyed and then failed to take
 6 any steps to confirm destruction; (iv) Facebook had made no effort to identify what data had been
 7 compromised from what users; (v) Facebook had violated the FTC Consent Decree; (vi) Facebook
 8 had made no effort to notify users that Cambridge Analytica or the other app developers had, without
 9 users' knowledge or consent, collected and still possessed vast amounts of Facebook users' friends'
 10 personal data; and (vii) a major risk to Facebook's business model, finances and reputation existed.

11 **2. Statements in Facebook's February 3, 2017 10-K Report**

12 648. Facebook's 2016 Form 10-K, dated February 3, 2017, contained the following
 13 statements concerning the risks to Facebook's business due to a loss of user trust in Facebook's
 14 ability to protect users' privacy, as could occur following public reports or investigations into
 15 breaches of Facebook's privacy policies, or the Company's past failures to address known breaches
 16 of those policies:

17 (a) "[T]echnical or other problems prevent us from delivering our products in a
 18 rapid and reliable manner or otherwise affect the user experience, such as security breaches or failure
 19 to prevent or limit spam or similar content";⁶⁴⁸

20 (b) "[W]e, developers whose products are integrated with our products, or other
 21 partners and companies in our industry are the subject of adverse media reports or other negative
 22 publicity";⁶⁴⁹

23 (c) "Unfavorable media coverage could negatively affect our business";⁶⁵⁰ and

25 ⁶⁴⁸ FY 2016 Facebook, Inc. Form 10-K at 8 (Feb. 3, 2017) (The MTD Order identified this
 26 statement as Statement 16.).

27 ⁶⁴⁹ *Id.* at 9 (The MTD Order identified this statement as Statement 17.).

28 ⁶⁵⁰ *Id.* at 13 (The MTD Order identified this statement as Statement 18.).

1 (d) “We have been subject to regulatory investigations and settlements, and we
2 expect to continue to be subject to such proceedings and other inquiries in the future, which could
3 cause us to incur substantial costs or require us to change our business practices in a manner
4 materially adverse to our business.”⁶⁵¹

5 649. The statements quoted above were repeated or incorporated by reference into the
6 other reports on Forms 10-K and 10-Q that Facebook filed with the SEC during the Class Period,
7 including its reports filed on May 4, 2017 (1Q17 10-Q), July 27, 2017 (2Q17 10-Q), November 2,
8 2017 (3Q17 10-Q), and February 1, 2018 (FY17 10-K), each of which were materially false and
9 misleading for the same reasons as set forth below.

10 650. Each of these statements was materially false or misleading because they described
11 the risks to Facebook’s business and reputation arising from its privacy practices and from
12 developers’ and other third parties’ use of Facebook user data as hypothetical, contingent and based
13 on events that had not yet occurred, while omitting to disclose that the Company’s previously
14 reported data breaches were much broader than the Company had disclosed, such that the risks of
15 negative media reports and regulatory investigations that could harm Facebook’s reputation and
16 negatively impact its user engagement, growth, and financial condition were materially greater than
17 investors would reasonably understand based on the foregoing statements. Defendants were also
18 knowingly or recklessly providing unauthorized access to user friend data to numerous third parties,
19 including app developers, whitelisted third parties and others. Defendants’ knowledge or reckless
20 disregard that these statements would be, and were, misleading to investors may be inferred from the
21 same facts that support a strong inference of scienter with respect to the assurances about Facebook’s
22 purported commitment to enforcement of its privacy policies.

23 651. The misleading impact of these statements was heightened by the other statements
24 Facebook and its officers made about protecting user data, including in the Company’s terms of use
25 and privacy policies and the other systems, controls and procedures that defendants regularly touted
26 regarding the purported strength of their efforts to protect users from harm resulting from the

27 _____
28 ⁶⁵¹ *Id.* at 16 (The MTD Order identified this statement as Statement 19.).

1 unauthorized disclosure of their data, and their purported commitment to vigorously enforcing
2 policies designed to prevent that from occurring, including by notifying affected users and banning
3 or taking legal action against those who had disseminated their data without consent.

4 652. Further, the statements set forth above were materially false and misleading because
5 they omitted the following material facts necessary in order to make those statements, in light of the
6 circumstances under which they were made, not misleading: (i) the Company had knowingly or
7 recklessly allowed third parties other than Cambridge Analytica and its affiliates to harvest and
8 misuse users' data without their knowledge or consent; (ii) Facebook had taken no action against
9 those other malicious actors upon learning that user data had been compromised in violation of
10 Facebook's terms of service; (iii) Facebook had waited six months before asking Cambridge
11 Analytica and other entities to certify that all user data had been destroyed and then failed to take
12 any steps to confirm destruction; (iv) Facebook had made no effort to identify what data had been
13 compromised from what users; (v) Facebook had violated the FTC Consent Decree; (vi) Facebook
14 had made no effort to notify users that Cambridge Analytica or the other app developers had, without
15 users' knowledge or consent, collected and still possessed vast amounts of Facebook users' friends'
16 personal data; and (vii) a major risk to Facebook's business model, finances and reputation existed.

17 3. Additional Statements in Facebook's March 16, 2018 Post

18 653. Facebook's March 16, 2018 public post on Facebook.com entitled: "Suspending
19 Cambridge Analytica and SCL Group From Facebook" contained the following statement: "These
20 include steps such as random audits of existing apps along with the regular and proactive monitoring
21 of the fastest growing apps. We enforce our policies in a variety of ways – from working with
22 developers to fix the problem, to suspending developers from our platform, to pursuing litigation."⁶⁵²

23 654. The above statement was materially misleading because it was designed to cast doubt
24 on *The New York Times* and *Guardian* articles reporting on Facebook's failure to address the
25 Cambridge Analytica data breach in a manner consistent with defendants' past public statements. In
26 reality, Facebook was not remotely "enforcing [its] policies in a variety of ways." On the contrary,

27 ⁶⁵² Paul Grewal, *Suspending Cambridge Analytica and SCL Group From Facebook*, Facebook
28 Newsroom (Mar. 16, 2018) (The MTD Order identified this statement as Statement 28.).

1 Facebook: (i) had authorized Kogan and his affiliated companies to sell user data to third parties in
 2 direct violation of the terms of service posted on Facebook’s website; (ii) had taken no action against
 3 Kogan or other malicious actors upon learning that user data had been compromised in violation of
 4 the terms of service; (iii) had waited six months before asking Cambridge Analytica and other
 5 entities to certify that all user data had been destroyed; and (iv) had made no effort – either
 6 themselves, or in concert with government bodies – to identify what data had been compromised
 7 from what users, or to notify users who had been, or were at risk of being, targeted.

8 655. Further, the statements set forth above were materially false and misleading because
 9 they omitted the following material facts necessary in order to make those statements, in light of the
 10 circumstances under which they were made, not misleading: (i) the Company had knowingly or
 11 recklessly allowed third parties other than Cambridge Analytica and its affiliates to harvest and
 12 misuse users’ data without their knowledge or consent; (ii) Facebook had taken no action against
 13 those other malicious actors upon learning that user data had been compromised in violation of
 14 Facebook’s terms of service; (iii) Facebook had waited six months before asking Cambridge
 15 Analytica and other entities to certify that all user data had been destroyed and then failed to take
 16 any steps to confirm destruction; (iv) Facebook had made no effort to identify what data had been
 17 compromised from what users; (v) Facebook had violated the FTC Consent Decree; (vi) Facebook
 18 had made no effort to notify users that Cambridge Analytica or the other app developers had, without
 19 users’ knowledge or consent, collected and still possessed vast amounts of Facebook users’ friends’
 20 personal data; and (vii) a major risk to Facebook’s business model, finances and reputation existed.

21 **4. Statements on Facebook’s April 4, 2018 Telephonic Press** 22 **Conference**

23 656. On April 4, 2018, Zuckerberg conducted a telephonic press conference, which was
 24 transcribed and posted on Facebook’s website under the title “Hard Questions: Q&A With Mark
 25 Zuckerberg on Protecting People’s Information.” During this press conference, he stated in part:⁶⁵³

26 For Facebook specifically, one of the things we need to do and that I hope that more
 people look at are just the privacy controls that you have. I think, especially leading

27 ⁶⁵³ *Hard Questions: Q&A With Mark Zuckerberg on Protecting People’s Information*, Facebook
 28 Newsroom (Apr. 4, 2018) (The MTD Order identified this statement as Statement 32.).

1 up to the GDPR event, a lot of people are asking us, “Okay, are you going to
2 implement all those things?” ***And my answer is that we’ve had almost all of what’s***
3 ***in there implemented for years, around the world, not just in Europe. So, to me,***
4 ***the fact that a lot of people might not be aware of that is an issue, and I think we***
could do a better job of putting these tools in front of people and not just offering
them, and I would encourage people to use them and make sure that they’re
comfortable with how their information is used on our services and others.

5 657. The above statement was materially false and misleading because it sought to assure
6 investors that data breaches like the Cambridge Analytica scandal were behind the Company and the
7 consequences of that breach would be minimal because Facebook had been protecting privacy for
8 years – when, in reality, Facebook had not been protecting privacy and the consequences of
9 Facebook’s data protection misconduct would not be fully revealed until July 25, 2018, when
10 Facebook disclosed, *inter alia*, heightened privacy-related expenses and declining active user
11 figures. Further, Zuckerberg’s statement that “we’ve had almost all of what’s in [the GDPR]
12 implemented for years, around the world,” misleadingly sought to assure investors that Facebook
13 was already adhering to or prepared to meet the requirements of the GDPR, when in reality the
14 Company was not meeting those requirements, which was not fully revealed until July 25, 2018.
15 Defendants’ knowledge or reckless disregard that these statements would be, and were, misleading
16 to investors may be inferred from the same facts that support a strong inference of scienter with
17 respect to the assurances about Facebook’s purported commitment to enforcement of its privacy
18 policies.

19 658. The foregoing statements were also materially false and misleading because they
20 omitted the following material facts necessary in order to make those statements, in light of the
21 circumstances under which they were made, not misleading: (i) Facebook had violated the FTC
22 Consent Decree; (ii) Facebook’s misconduct with respect to user privacy would impact the
23 Company’s bottom line by destroying its reputation as a company that protected privacy and by
24 requiring the Company to incur billions in expenses to become privacy compliant, including with
25 respect to the GDPR; and (iii) as a result, Facebook’s user numbers, revenue growth, operating
26 margins and business prospects would materially decline.

1 **VII. Additional Scierter Allegations**

2 659. The facts detailed above, when viewed collectively and holistically and together with
3 the other allegations in this Complaint, establish a strong inference that each of the defendants knew
4 or were deliberately reckless that each of the misrepresentations and omissions set forth above would
5 be, and were, misleading to investors at the time they were made.

6 660. Each of the defendants knew or recklessly disregarded that their statements
7 concerning privacy risks and the Cambridge Analytica breach were or would be misleading to
8 investors at the time they were made because, as previously alleged, at the time the foregoing
9 statements were made, each of the defendants knew or recklessly disregarded, *inter alia*, that:
10 (a) Facebook user data had been provided to Cambridge Analytica in violation of Facebook's terms
11 of use; (b) Facebook had done nothing to investigate the scope of the breach or require destruction of
12 the user data at the time it learned of the breach; (c) Facebook acted only after the risks of exposure
13 had increased as a result of Cambridge Analytica's participation in events leading to the Brexit vote;
14 (d) defendants had deliberately decided *not* to notify affected users that their data had been
15 compromised; (e) the certification obtained from SCL was unreliable to reasonably assure that user
16 data had in fact been deleted; (f) Facebook's lax historic privacy practices had given rise to
17 numerous other risks of user data being compromised, such that the Cambridge Analytica data
18 breach was not an isolated event; and (g) Facebook was continuing to share user data without
19 authorization and in violation of its stated policies.

20 661. Defendants' scierter may be further inferred from other facts alleged herein,
21 including that: (a) GSR Founder Chancellor, who had detailed knowledge about Cambridge
22 Analytica's access to and use of the user data had been hired by Facebook around the time it learned
23 of the data breach, and was still working in its headquarters at the time the foregoing statements
24 were made; (b) defendants had been repeatedly warned of the concealed risks to the Company
25 arising from its lax privacy practices, including by McNamee, Parakilas and others; (c) defendants
26 knew that providing truthful, accurate and complete disclosures would threaten their business model,
27 as it would expose users to information that was likely to dissuade them from actively engaging on
28 Facebook's social media platforms; (d) defendants' close attention to user engagement metrics, and

1 the critical importance of those metrics to Facebook’s business model and financial success; (e) the
2 Company had a long history of internally disregarding privacy rights of users, and acting in ways
3 that contradicted its public assurances to users; and (f) Facebook was subject to an FTC Consent
4 Decree at the time the statements were made, providing defendants with heightened awareness of the
5 risks of and their responsibilities with respect to violating user privacy rights.

6 662. In addition, defendants’ scienter can be inferred from the stark contrast between their
7 disinterest in protecting users’ privacy and the aggressive tack they took and take in protecting their
8 own, in particular when it came to negotiating and enforcing the Company’s confidentiality and non-
9 disclosure agreements. Kogan, who refused to respond to a number of questions asked of him by
10 members of the U.K. parliament for fear that doing so would violate the agreement he signed with
11 Facebook, was typical. ¶¶212-214, *supra*. As reported by *Bloomberg*, Facebook has a well-earned
12 reputation for “searching for leakers” and negatively influencing their ability to find employment
13 elsewhere in Silicon Valley.⁶⁵⁴ Indeed, Zuckerberg has reportedly announced at all-hands meetings
14 the firing of employees for leaking, often to applause from other employees.⁶⁵⁵ Consistent with
15 these Facebook practices, counsel for plaintiffs, in investigating the allegations contained in this
16 complaint, have contacted dozens of witnesses otherwise inclined to be interviewed who declined to
17 provide information based on their fear either that they would be prosecuted by Facebook for
18 violating the terms of a non-disclosure agreement with the Company, or subject to retaliation from
19 Facebook in seeking employment, or both.

20 663. Defendants’ massive stock sales during the Class Period provide additional strong
21 evidence in support of an inference of scienter, in that they further demonstrate how each of the
22 defendants had a direct, substantial pecuniary motive to conceal the true facts from investors and
23 users, so as to enable defendants to sell their personal shares of Facebook stock at prices that were
24 inflated by fraud.

26 ⁶⁵⁴ *Bloomberg*, Decrypted podcast, *Facebook’s Former Employees Open Up About the Data*
27 *Scandal* (Mar. 29, 2018) (starting at minute 2).

28 ⁶⁵⁵ *Id.*

1 664. In 2015, defendant Zuckerberg learned that Cambridge Analytica was misusing
2 Facebook users’ personal data. Defendant Zuckerberg has admitted to possessing knowledge of this
3 nonpublic information. In a recent March 21, 2018 Facebook post, he admitted that “[i]n 2015, we
4 learned from journalists at *The Guardian* that Kogan had shared data from his app with Cambridge
5 Analytica.”⁶⁵⁶ Likewise, in a March 21, 2018 interview with *Wired*, he admitted that “in 2015, . . .
6 we heard from journalists at *The Guardian* that Aleksandr Kogan seemed to have shared data with
7 Cambridge Analytica and a few other parties.”⁶⁵⁷ Sandberg similarly admitted in a recent April 6,
8 2018 interview with the *Today* show that Facebook was aware as early as November 2015 that
9 Kogan shared users’ data with Cambridge Analytica, stating: “You are right that we could have done
10 these two and a half years ago. . . . [W]e thought that the data had been deleted and we should have
11 checked.”⁶⁵⁸

12 665. At the same time in December 2015 that *The Guardian* told Facebook that Cambridge
13 Analytica had illegally provided Facebook user data to third parties, defendant Zuckerberg began the
14 process of disposing of billions of dollars of his Facebook shares through a limited liability company
15 that he controls and created in December 2015 called Chan Zuckerberg Initiative, LLC (“CZI”). On
16 December 22, 2015, eleven days after *The Guardian* published its article, defendant Zuckerberg
17 transferred over 414 million of his Facebook shares-valued at about \$45 billion at the time of the
18 transfer-to CZI. Defendant Zuckerberg retained complete control over CZI’s ability to dispose of the
19 transferred shares.

20 666. Over the ensuing months, defendant Zuckerberg proceeded to unload over 29.4
21 million Facebook shares for nearly \$5.3 billion dollars. During the year that preceded the eventual
22 revelation that Facebook failed to safeguard its users’ data, defendant Zuckerberg sold over 10.1
23 million of his personal Facebook shares, collecting \$1.74 billion in profits. As the financial press

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25 ⁶⁵⁶ Mark Zuckerberg, Facebook (Mar. 21, 2018).

26 ⁶⁵⁷ Nicholas Thompson, *Mark Zuckerberg Talks to Wired about Facebook’s Privacy Problem*,
Wired (Mar. 21, 2018).

27 ⁶⁵⁸ Eun Kyung Kim, *Sheryl Sandberg on TODAY: Other Facebook data breaches ‘possible’*, *Today*
28 (Apr. 6, 2018).

1 has since noted, defendant Zuckerberg unloaded more shares “than any insider at any other
2 company”⁶⁵⁹ in the months preceding the revelations of Facebook’s misconduct. Indeed, within the
3 one month preceding the March 17, 2018 revelations, defendant Zuckerberg sold over \$780 million
4 in Facebook stock.

5 667. Defendant Sandberg also sold large amounts of her personally-held Facebook shares
6 during the Class Period prior to the revelation of Facebook’s data security breach. In total,
7 defendant Sandberg sold over **2.2 million** shares of Facebook stock between February 3, 2017 and
8 March 23, 2018, collecting **over \$318 million** for these sales.

9 668. As the financial press has observed, during the months preceding Facebook’s
10 disclosure of its data security breach, “[Facebook] executives [were] selling shares like crazy.”⁶⁶⁰
11 During the three-month window prior to the disclosure of the data security breach alone, Zuckerberg
12 sold more stock “than any insider at any other company.”⁶⁶¹ In fact, Zuckerberg ***sold twice as much***
13 ***stock*** during the Class Period as compared to the same amount of time preceding the Class Period.
14 Meanwhile, Zuckerberg did not buy ***any*** shares during the Class Period. As noted in news reports,
15 Sandberg’s sales of her personal stock, while less than defendant Zuckerberg, “is still unusually
16 large among officers of top tech companies.”⁶⁶²

17 669. *CNBC* reported that in the first quarter of 2018, “as Facebook struggled with data
18 leaks and fake news scandals, insiders at the company were selling more stock than they typically
19 do,” and that in the “second quarter, top executives sold 13.6 million shares, up from 8.3 million in
20 the first quarter, and roughly ***triple the amount*** they sold in the last quarter of 2017.”⁶⁶³ Facebook’s

21 _____
22 ⁶⁵⁹ Evelyn Cheng, *Zuckerberg has sold more Facebook stock in the last 3 months than any insider at any other Company*, *CNBC* (Mar. 20, 2018).

23 ⁶⁶⁰ Matt Rosoff, *Facebook is facing its biggest test ever – and its lack of leadership could sink the company*, *CNBC* (Mar. 18, 2018).

24 ⁶⁶¹ Evelyn Cheng, *Zuckerberg has sold more Facebook stock in the last 3 months than any insider at any other Company*, *CNBC* (Mar. 20, 2018).

25 ⁶⁶² Matt Rosoff, *Facebook is facing its biggest test ever – and its lack of leadership could sink the company*, *CNBC* (Mar. 18, 2018).

26 ⁶⁶³ Kate Rooney, *Facebook insiders sold more stock than usual in the second quarter*, *CNBC* (July
27 26, 2018).

1 SEC filings corroborate these reports and reveal suspicious trading by each of the Executive
2 Defendants.

3 **A. Zuckerberg’s \$5.3 Billion Aggregate Sales**

4 670. During the February 27, 2017 to July 25, 2018 period, Zuckerberg sold over **\$5.3**
5 **billion** worth of Facebook stock. Zuckerberg sold this stock out of an investment vehicle that he
6 controls and created in December 2015, when he transferred 99% of his Facebook stock to the
7 vehicle. He publicly proclaimed that the purpose of the vehicle was charitable but the limited
8 liability company structure does not require the vehicle to spend “a minimum of 5 percent of the
9 value of their endowment every year for charitable purposes”⁶⁶⁴ as typical nonprofits require. When
10 Facebook reported to investors information about this new private investment vehicle in December
11 2015, the Company confirmed that Zuckerberg would “control the voting and disposition of any
12 shares held by such entity.”⁶⁶⁵ Thus, Zuckerberg “remains completely free to do as he wishes”⁶⁶⁶
13 with the proceeds from his Class Period stock sales as a result.

14 671. When Zuckerberg created his investment vehicle in December 2015, Facebook
15 reported that he told the Company the amount of stock he planned to sell into the open market. In
16 particular, Facebook reported that Zuckerberg told the Company that “he *plan[ned]* to sell or gift *no*
17 *more* than \$1 billion of Facebook stock each year for the next three years and that he intends to
18 retain his majority voting position in our stock for the foreseeable future.”⁶⁶⁷ Zuckerberg had
19 already created the investment vehicle on or about December 1, 2015, when Facebook reported the
20 news to investors. The first reports of the Cambridge Analytica scandal surfaced in late December
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23
24 ⁶⁶⁴ Natasha Singer and Mike Isaac, *Mark Zuckerberg’s Philanthropy Uses L.L.C. for More Control*,
N.Y. Times (Dec. 2, 2015).

25 ⁶⁶⁵ Facebook, Inc. Form 8-K (Dec. 1, 2015).

26 ⁶⁶⁶ Jesse Eisinger, Pro Publica, *How Mark Zuckerberg’s Altruism Helps Himself*, N.Y. Times (Dec.
27 3, 2015).

28 ⁶⁶⁷ Facebook, Inc. Form 8-K (Dec. 1, 2015).

1 2015 and, after that time but before the scandal surfaced, Zuckerberg changed his original plan to
2 sell \$3 billion.⁶⁶⁸

3 672. In fact, Zuckerberg’s Class Period sales of **\$5.3 billion** are **55% higher** than the \$3
4 billion plan that the Company reported on December 1, 2015 when Zuckerberg created his first plan.
5 He sold **\$2 billion** in stock (or 11.9 million shares) during the February 27, 2017 to March 23, 2018
6 period that preceded *The Guardian* and *The New York Times* reports regarding the Cambridge
7 Analytica scandal and Facebook’s attendant inability to safeguard its users’ personal information.
8 Once that news surfaced, Zuckerberg and his team minimized the problem, “pumping” Facebook’s
9 stock price higher during the March – July 2018 period. During that time Zuckerberg “dumped”
10 over 7.7 million shares for proceeds of more than **\$3.3 billion** before the July 25, 2018 investor call
11 when he and others at Facebook shocked the markets with the news that Facebook had essentially
12 ended its ability to grow in light of the business changes that the Cambridge Analytica scandal
13 precipitated.

14 673. Zuckerberg’s suspicious sales immediately preceding the March 2018 revelations,
15 along with the financial benefits that he garnered in minimizing that news before the Company’s
16 July 2018 investor are clear. After the March 18, 2018 disclosure, defendant Zuckerberg assured
17 investors that Facebook was taking appropriate steps to ensure that users’ privacy was being
18 protected and that the breach would have only a negligible impact on users’ engagement on the
19 Facebook platform. During that same time, defendant Zuckerberg continued to unload his Facebook
20 shares. Specifically, between March 18, 2018 and the July 25, 2018 investor call, defendant
21 Zuckerberg sold \$3.45 billion of Facebook stock (18.5 million shares). As the financial press has
22 since reported, defendant Zuckerberg again continued to “sell[] more stock than [he] typically d[id]”
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26 ⁶⁶⁸ Zuckerberg publicly reported a change in his plan on or about September 22, 2017. *See*
27 Facebook, Inc. Form 8-K (Sept. 27, 2017). (“On September 22, 2017, Mr. Zuckerberg announced
28 that he anticipates selling 35 million to 75 million shares of Facebook stock over approximately 18
months from the date of this report . . .”).

1 during this period, selling in the second quarter of 2018 “double what he sold in the first quarter” of
2 2018 and “10 times what he sold in the fourth quarter” of 2017.⁶⁶⁹

3 674. Defendant Zuckerberg’s trading during the Class Period dramatically departed from
4 his prior trading activity, as he sold three times more stock during the Class Period than he did for
5 the same period preceding the Class Period. Strikingly, during the Class Period while he was in
6 possession of material nonpublic information, defendant Zuckerberg did not buy a single Facebook
7 share.

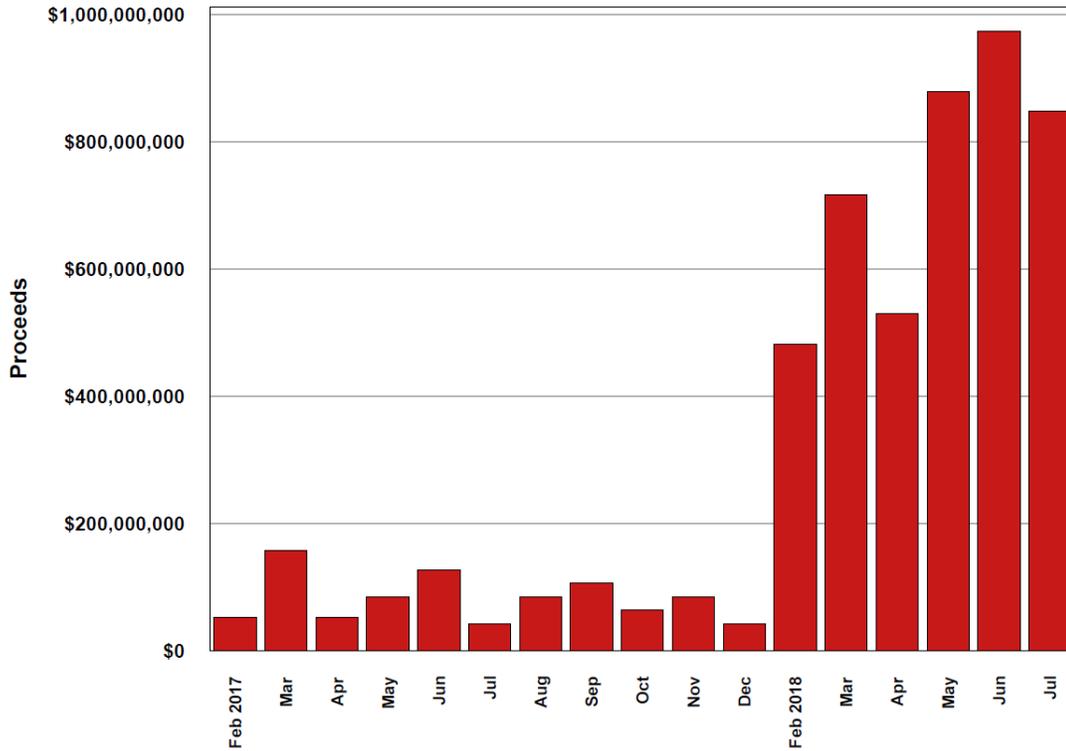
8 675. As the following charts show, Zuckerberg’s quarterly insider sales during the Class
9 Period dwarf his prior sales, both in the dollar amount of the sales and in the number of shares sold:

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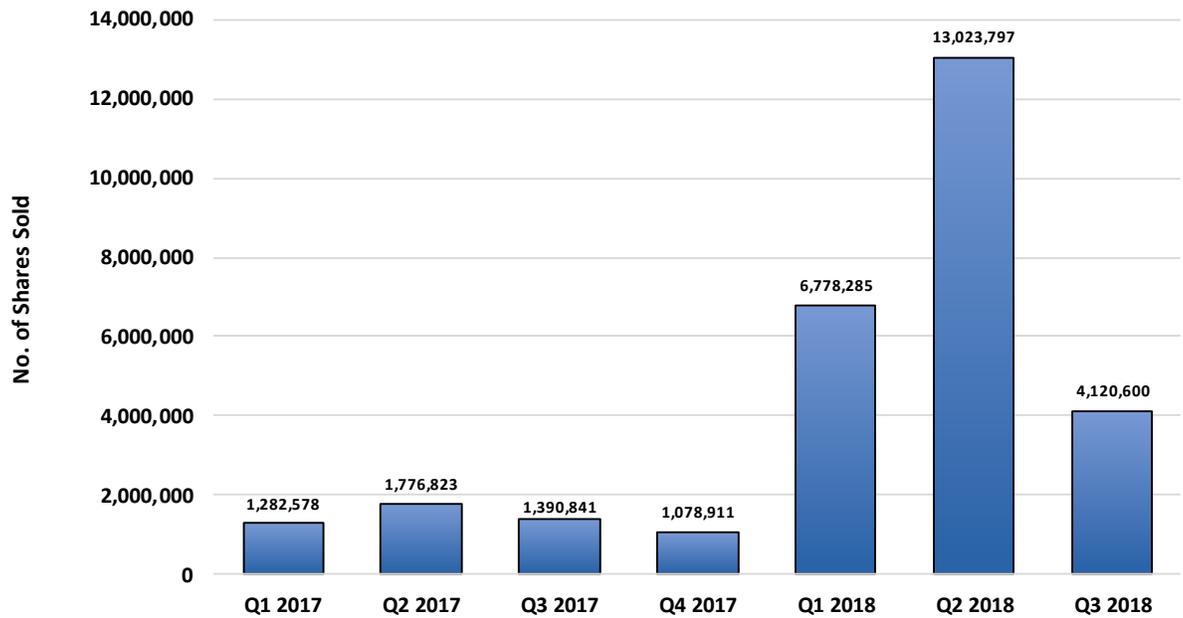
⁶⁶⁹ Kate Rooney, *Facebook insiders sold more stock than usual in the second quarter*, CNBC (July 26, 2018).

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Zuckerberg Insider Selling By Month



Shares Sold by Defendant Zuckerberg



1 676. Further, Zuckerberg engaged in random patterns of selling during the first part of the
2 Class Period in 2017 – selling only twice in February, six times in March, twice in April, four times
3 in May, six times in June, twice in July, four times in August, five times in September, three times in
4 October, four times in November and twice in December. Then, in March 2018, he rapidly
5 accelerated his trading to sell shares *every single trading day possible* until July 25, 2018 – when the
6 bottom dropped out on the stock price.

7 677. Finally, in the fourth quarter of 2018, Zuckerberg did not sell a single share. As noted
8 by Bloomberg reporters, this was “the first quarter in more than two years [that Zuckerberg has]
9 refrained from doing so.”⁶⁷⁰ The reasons are obvious, he capitalized on the artificially inflated price
10 of Facebook’s stock prior to the July 25, 2018 corrective disclosure – and then stopped selling when
11 the price was low.

12 **B. Sandberg’s \$389 Million Insider Sales**

13 678. Defendant Sandberg also dumped massive amounts Facebook stock during the Class
14 Period. She sold **\$389 million** worth of Facebook stock throughout this time, and, like Zuckerberg,
15 was in a position to control the timing of the true extent of Facebook’s underlying business problems
16 with regard to the way that it treated users’ information. During the nearly one-year period from
17 February 16, 2017 to March 15, 2018, Sandberg sold over 1.5 million shares more than \$270 million
18 in proceeds. Similar to Zuckerberg’s rosy statements to the market after *The Guardian* and *The New*
19 *York Times* stories surfaced in late March 2018, Sandberg also issued favorable statements that
20 increased the stock’s price before the July 2018 earnings call. During the three and a half-month
21 period from March 30, 2017 to July 19, 2018, Sandberg sold over 411 thousand shares for \$75
22 million in proceeds. In all, she unloaded over 2.5 million shares for more than \$389 million:

	Sale Date	Price	Shares Sold	Proceeds
23	2/16/2017	\$133.39	327,000	\$43,618,530
24	2/28/2017	\$135.58	158,534	\$21,494,040
25	2/28/2017	\$136.15	88,190	\$12,007,069
26	2/28/2017	\$136.16	80,276	\$10,930,380
26	3/15/2017	\$139.02	115,258	\$16,023,167

27 ⁶⁷⁰ Anders Melin and Brandon Kochkodin, *Mark Zuckerberg Halts Stock Sales as Facebook Shares*
28 *Tumble*, Bloomberg (Jan. 3, 2019).

	Sale Date	Price	Shares Sold	Proceeds
1				
2	3/15/2017	\$139.03	108,469	\$15,080,445
3	3/15/2017	\$139.77	54,530	\$7,621,658
4	3/15/2017	\$139.78	48,743	\$6,813,297
5	3/30/2017	\$140.37	141,490	\$19,860,951
6	3/30/2017	\$142.41	130,910	\$18,642,893
7	3/30/2017	\$142.90	100	\$14,290
8	4/18/2017	\$141.20	66,306	\$9,362,407
9	4/18/2017	\$141.22	77,194	\$10,901,337
10	4/18/2017	\$141.73	12,300	\$1,743,279
11	4/18/2017	\$141.77	7,700	\$1,091,629
12	5/11/2017	\$149.92	159,470	\$23,907,742
13	5/11/2017	\$150.51	2,200	\$331,122
14	5/11/2017	\$150.53	1,830	\$275,470
15	5/24/2017	\$149.22	39,232	\$5,854,199
16	5/24/2017	\$149.23	37,675	\$5,622,240
17	5/24/2017	\$149.83	45,662	\$6,841,537
18	5/24/2017	\$149.84	40,931	\$6,133,101
19	6/6/2017	\$152.99	19,006	\$2,907,728
20	6/6/2017	\$153.00	20,894	\$3,196,782
21	6/6/2017	\$153.98	123,600	\$19,031,928
22	6/19/2017	\$152.47	41,899	\$6,388,341
23	6/19/2017	\$152.50	48,564	\$7,406,010
24	6/19/2017	\$153.01	21,315	\$3,261,408
25	6/19/2017	\$153.04	19,722	\$3,018,255
26	2/14/2018	\$173.46	1,900	\$329,574
27	2/14/2018	\$174.97	10,900	\$1,907,173
28	2/14/2018	\$176.54	6,300	\$1,112,202
29	2/14/2018	\$177.14	12,525	\$2,218,679
30	2/14/2018	\$178.32	10,500	\$1,872,360
31	2/14/2018	\$179.32	12,875	\$2,308,745
32	3/2/2018	\$173.62	18,200	\$3,159,884
33	3/2/2018	\$174.51	11,080	\$1,933,571
34	3/2/2018	\$175.49	22,236	\$3,902,196
35	3/2/2018	\$176.48	3,484	\$614,856
36	3/15/2018	\$182.79	28,866	\$5,276,416
37	3/15/2018	\$183.51	26,134	\$4,795,850
38	4/2/2018	\$154.95	16,870	\$2,614,007
39	4/2/2018	\$155.60	20,620	\$3,208,472
40	4/2/2018	\$156.67	11,610	\$1,818,939
41	4/2/2018	\$157.65	3,500	\$551,775
42	4/2/2018	\$158.54	2,400	\$380,496
43	4/18/2018	\$166.66	40,261	\$6,709,898
44	4/18/2018	\$167.32	14,739	\$2,466,129
45	5/14/2018	\$186.84	43,789	\$8,181,537
46	5/14/2018	\$187.51	11,211	\$2,102,175
47	5/30/2018	\$185.88	12,492	\$2,322,013
48	5/30/2018	\$186.80	5,200	\$971,360
49	5/30/2018	\$187.72	37,308	\$7,003,458
50	6/12/2018	\$192.20	46,206	\$8,880,793
51	6/12/2018	\$192.92	8,794	\$1,696,538

Sale Date	Price	Shares Sold	Proceeds
6/28/2018	\$193.94	4,424	\$857,991
6/28/2018	\$194.94	17,172	\$3,347,510
6/28/2018	\$195.79	24,444	\$4,785,891
6/28/2018	\$196.71	8,960	\$1,762,522
7/19/2018	\$208.32	41,078	\$8,557,369
7/19/2018	\$209.16	13,922	\$2,911,926
Totals		2,589,000	\$389,943,538

C. Wehner's \$21 Million Insider Sales

679. Defendant Wehner also unloaded large amounts of Facebook stock during the Class Period, as the following chart demonstrates:

Sale Date	Price	Shares Sold	Proceeds
2/21/2017	\$133.50	6,584	\$878,964
3/1/2017	\$136.50	1,209	\$165,029
3/1/2017	\$136.90	806	\$110,341
4/24/2017	\$144.96	16,008	\$2,320,520
4/28/2017	\$149.90	20,000	\$2,998,000
5/19/2017	\$148.47	15,470	\$2,296,831
8/21/2017	\$167.16	15,470	\$2,585,965
11/21/2017	\$179.05	15,470	\$2,769,904
2/22/2018	\$178.79	14,901	\$2,664,150
5/16/2018	\$183.61	9,522	\$1,748,334
5/21/2018	\$184.90	4,761	\$880,309
6/20/2018	\$199.90	10,000	\$1,999,000
Totals		130,201	\$21,417,346

VIII. Additional Allegations of Reliance, Materiality, Loss Causation and Damages

680. Lead Plaintiffs and other members of the Class suffered damages as a result of the misrepresentations and omissions alleged herein when the circumstances, events and conditions concealed from investors became known to the market, or the risks arising from those circumstances, conditions and events manifested, causing declines in the market price of Facebook common stock, which trades in an efficient market.

A. Market Efficiency

681. Through the efficient operation of the markets in which Facebook common stock was publicly traded, Lead Plaintiffs and the other members of the proposed Class may be presumed to have relied upon each of the false and misleading statements alleged herein.

1 682. At all relevant times, the market for Facebook's common stock was an efficient
2 market for the following reasons, among others:

3 (a) Facebook's stock met the requirements for listing, and was listed and actively
4 traded on the NASDAQ Global Select Market, a highly efficient and automated market;

5 (b) As a regulated issuer, Facebook filed periodic public reports with the SEC and
6 the NASDAQ and was, at all times alleged herein, eligible to file a Form S-3 with the SEC;

7 (c) Facebook regularly communicated with public investors via established
8 market communication mechanisms, including through regular disseminations of press releases on
9 the national circuits of major newswire services, publications on its website and other Internet sites,
10 and through other wide-ranging public disclosures, such as through conference calls,
11 communications with the financial press and other similar reporting services;

12 (d) During the Class Period, Facebook was followed by securities analysts
13 employed by major brokerage firms. Analysts employed by each of these firms regularly wrote
14 reports based upon the publicly available information disseminated by defendants about Facebook.
15 These reports were distributed to the sales force and certain customers of their respective brokerage
16 firms;

17 (e) Institutions collectively owned more than two-thirds of Facebook's
18 outstanding shares during the Class Period. Each of these institutions regularly analyzed and
19 reported on the publicly available information about Facebook and its operations; and

20 (f) During the Class Period, the average daily trading volume of Facebook
21 common stock was greater than 20 million shares.

22 683. Through the foregoing mechanisms, the information publicly disseminated by
23 defendants about the Company and its operations, and the import thereof, became widely available
24 to and was acted upon by investors in the marketplace such that, as a result of their transactions in
25 Facebook stock, the information disseminated by defendants, including the false and misleading
26 statements described above, became incorporated into and were reflected by the market price of
27 Facebook's common stock.

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1 684. Under these circumstances, all purchasers of Facebook’s common stock during the
2 Class Period are presumed to have relied upon the false and misleading statements and material
3 omissions alleged herein.

4 **B. Loss Causation and Damages**

5 685. Each member of the proposed Class suffered economic losses as a direct and
6 proximate result of the fraud alleged herein. Each Class member suffered similar injury as a result
7 of: (i) their purchase of Facebook’s common stock at prices that were higher than they would have
8 been had defendants made truthful and complete disclosures of information about the Company as
9 necessary to prevent the statements, omissions and course of business alleged herein from being
10 materially false or misleading to investors; and (ii) their retention of those shares through the date of
11 one or more declines in the market price of those shares that was caused by the revelation of
12 defendants’ misrepresentations and omissions and the risks concealed from investors by defendants’
13 scheme to defraud, or the financial consequences of their concealed actions.

14 686. The misrepresentations and omissions alleged herein impacted the public trading
15 price for Facebook’s common stock by causing it to trade at a price higher than it would have had
16 the facts, risks and conditions concealed by defendants’ fraud become known sooner than it did. The
17 impact on Facebook’s stock price occurred by increasing the trading price of Facebook stock at the
18 time of the misrepresentation or by preventing a price decline that would have occurred at that time
19 with the full disclosure of the truth, or both.

20 687. The facts, risks and conditions concealed from investors by defendants’ scheme to
21 defraud reached the market through a series of partial disclosures. Though each of the disclosures
22 was incomplete, each revealed some of the falsity of defendants’ statements regarding user control
23 over data, the Cambridge Analytica matter, and other elements of defendants’ fraud alleged herein,
24 including the concealed materialization of risks to its operations, leading to price declines that
25 partially corrected Facebook’s stock price by reducing the extent to which it had been inflated by
26 defendants’ fraud scheme, thereby injuring Lead Plaintiffs and other members of the Class who had
27 purchased Facebook securities during the Class Period at prices that had been artificially inflated by
28 the fraudulent course of business and misleading statements and omissions alleged herein.

688. The disclosures that impacted the price of Facebook’s common stock include those identified in the chart below, which identifies each event, the change in Facebook’s stock price on the day of the event, and, for purposes of comparison, the percentage change during the same time period in the Standard & Poor’s 500 Stock Index (“S&P 500”), one of the market indices to which Facebook compares its stock performance in its annual reports to the SEC:

Date	Event ⁶⁷¹	Facebook		S&P 500 ⁶⁷²
		\$ Δ	% Δ	% Δ
3/19/18	<i>NYT & Guardian</i> reports	(\$12.53)	(6.8%)	(1.4%)
3/20/18	Continuing revelations of extent of data breach and lax enforcement, and of regulatory and user backlash	(\$4.41)	(2.6%)	0.15%
3/22/18		(\$4.50)	(2.7%)	(2.5%)
3/23/18		(\$5.50)	(3.3%)	(2.1%)
3/27/18		(\$7.84)	(4.9%)	(1.7%)
4/26/18	1Q18 Earnings Release	\$14.47	9.1%	1.0%
7/26/18	2Q18 Earnings Release	(\$41.24)	(19.0%)	(0.3%)

689. On Monday, March 19, 2018, following the numerous disclosures over the preceding weekend regarding the misuse of Facebook user data and lack of user control – including the press release issued by Facebook after the market closed on Friday, March 16, 2018 and the articles published by *The New York Times* and *The Guardian* on Saturday, March 17, 2018 – caused the price of Facebook common stock to decline. See ¶[[373]]. The shares opened at \$177.01 – a 4.4% decline from the previous Friday’s closing price. Over the course of the day, as additional news regarding the extent of the data breach emerged, Facebook’s stock continued to decline. Facebook closed at \$172.56, a 6.8% decline from the prior Friday’s closing price on volume of 88 million shares, more than four times the average trading volume during the Class Period.

⁶⁷¹ In some cases, the identified event occurred after the market closed on the preceding trading day but prior to the date indicated in the chart, which is the date of the relevant price decline. The list of events identified herein is necessarily preliminary, and based upon Lead Plaintiffs’ analysis and investigation to date. Upon further investigation and discovery and additional analysis, Lead Plaintiffs may change, alter or amend their theory of damages, including by identifying different or additional inflationary and corrective events that caused or contributed to the damages claimed in this action, or by using other industry indices or competitor stock price data to more precisely establish the magnitude of the Company-specific change arising from those events.

⁶⁷² The chart indicates the percentage change in the S&P 500 Index as a whole. Part of the change in the index price therefore reflects the change in the price of Facebook stock, which represents a significant portion of the index. As a result, the company-specific portion of the price changes reflected in the chart is actually greater than indicated by a simple comparison of Facebook’s price change to the change in the market index.

1 690. The news regarding Cambridge Analytica’s continued possession and misuse of the
2 personal data of tens of millions of Facebook users that emerged over the March 16-17, 2018
3 weekend partially revealed Defendants’ Class Period representations set forth above to be materially
4 false and misleading.

5 691. For example, contrary to Defendants’ Class Period representations concerning control
6 over user data and Facebook respecting user privacy, this news revealed that Facebook could not
7 ensure that users controlled their data or had privacy with respect to data accessed by third parties on
8 the Facebook platform. Indeed, the March 17, 2018 article in *The New York Times* expressly linked
9 the news to issues of data control, stating, for example, that “copies of the data still remain beyond
10 Facebook’s control” and noting that *The Times* even “viewed a set of raw data from the profiles
11 Cambridge Analytica obtained.”⁶⁷³

12 692. Likewise, Facebook’s *own* March 16, 2018 website statements announcing the
13 suspension of Cambridge Analytica and SCL Group drew a direct link to issues of user control. For
14 example, Facebook assured the public that a massive loss of data control like what happened with
15 Cambridge Analytica could not happen again, stating, “[i]n 2014 . . . we made an update to ensure
16 that each person decides what information they want to share about themselves, including their
17 friend list,” which “is just one of the many ways we give people the tools to *control their*
18 *experience*” (emphasis in Facebook’s original).⁶⁷⁴

19 693. The press also expressly linked the March 2018 news concerning Cambridge
20 Analytica to the revelation of a lack of control over Facebook user data. For example, a March 19,
21 2018 article in the *Los Angeles Times* noted that Facebook “bushwhacked” the public by promising
22 that users “own all of the content and information [that they] post on Facebook, and [users] can
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26 ⁶⁷³ Matthew Rosenberg, Nicholas Confessore & Carole Cadwalladr, *How Trump Consultants Exploited the Facebook Data of Millions*, N.Y. Times (Mar. 17, 2018).

27 ⁶⁷⁴ Paul Grewal, *Suspending Cambridge Analytica and SCL Group From Facebook*, Facebook
28 Newsroom (Mar. 16, 2018).

1 control how it is shared” – when “[t]he reality is: [user] data belong[s] to Facebook, and the
2 company will enrich itself by doing with it whatever it pleases.”⁶⁷⁵

3 694. The March 16-17, 2018 news also exposed several other categories of Defendants’
4 Class Period statements as false and misleading. Indeed, this news revealed that, *inter alia*,
5 Defendants’ risk statements were misleading because, in reality and contrary to these statements,
6 improper access, disclosure and misuse of user data were not merely hypothetical investment risks.
7 In fact, Facebook had suffered a significant episode of misuse of user data by an app developer. The
8 news also revealed the following statements to be materially misleading:⁶⁷⁶

9 (a) Defendants’ statements about not “uncovering anything that suggests
10 wrongdoing with respect to Cambridge Analytica’s work on the . . . Trump campaign[.]”;

11 (b) Defendants’ statements about “requiring” data misusers to “destroy all
12 improperly collected data”;

13 (c) Defendants’ statements about complying with the 2012 FTC Consent Decree;
14 and

15 (d) Defendants’ statements about notifying Facebook users whose accounts were
16 compromised or at risk of being compromised.

17 695. Further, market commentators also noted the “current unknowns around FB shares,”
18 which were identified as: “1) negative impact to user growth and engagement, and 2) the potential
19 for regulatory activity and/or scrutiny.”

20 696. The price of Facebook common stock continued to decline thereafter as a result of
21 additional disclosures of material information regarding the lack of user control over their data on
22 the Facebook platform, the extent of the Cambridge Analytica data misuse, Facebook’s
23 misrepresentations about its response to the Cambridge Analytica data misuse, and the magnitude of
24 the risks facing the Company. By the close of the market on March 27, 2018, the price of Facebook

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26 ⁶⁷⁵ David Lazarus, *Column: Facebook says you ‘own’ all the data you post. Not even close, say privacy experts*, Los Angeles Times (Mar. 19, 2018).

27 ⁶⁷⁶ See Mark DeCambre & Emily Bary, *Facebook sheds nearly \$40 billion of market cap as investors flee stock*, MarketWatch (Mar. 19, 2018).
28

1 common stock had declined to \$152.22 as a result of such disclosures, completing a stunning 17.8%
 2 (\$32.87) decline in the price of its shares immediately before Facebook’s failure to retrieve user data
 3 from Cambridge Analytica and other third parties was disclosed. Following are just some of the
 4 disclosures that caused Facebook’s stock price to decline:⁶⁷⁷

5 On March 18, 2018, Wylie tweeted that he had been “Suspended by @facebook. For
 6 blowing the whistle. ***On something they have known privately for 2 years***”;⁶⁷⁸

7 On March 19, 2018, The New York Times reported that Facebook’s Chief
 8 Information Security Officer, had been forced to resign from the Company in
 9 December 2017 as a result of the growing investigations into Facebook’s role in
 10 allowing Russian hacking to occur on its platform during the 2016 U.S. presidential
 11 election;⁶⁷⁹

12 On March 20, 2018, The Guardian reported that app developers routinely practiced
 13 data harvesting using the Facebook platform, and, as a result, data from hundreds of
 14 millions of users was at risk of being exploited through tactics similar to Cambridge
 15 Analytica’s. This news, and additional disclosures regarding the widening scope of
 16 the data privacy risks, including calls for users to “#deleteFacebook” and
 17 unconfirmed reports of government investigations into the matter, caused the
 18 Company’s stock price to fall further, closing at \$168.15, a further 2.6% decline in
 19 the value of Facebook shares; and

20 Also on March 20, 2018, The Guardian reported that Parakilas – the platform
 21 operations manager responsible for policing access to Facebook data in 2011 and
 22 2012 – had stated that Facebook’s lax data use policies had likely been exploited by
 23 numerous other app developers, putting the data of hundreds of millions more
 24 Facebook users at risk.

25 697. On March 21, 2018, Zuckerberg and Sandberg began conducting media interviews
 26 designed to assure investors, users and the public that defendants were taking responsibility for their
 27 actions, were doing everything they could to correct the problem, and that Cambridge Analytica had
 28 deceived them into believing that it had destroyed the purloined user data in 2015. As a result of
 29 defendants’ public relations campaign, the decline in Facebook’s share price was temporarily halted,
 30 and Facebook’s stock closed at \$169.39, less than a percentage point higher than its closing price on
 31 March 20.

32 ⁶⁷⁷ Paul Lewis, *‘Utterly Horrifying’: ex-Facebook insider says covert data harvesting was routine*,
 33 Guardian (Mar. 20, 2018).

34 ⁶⁷⁸ Christopher Wylie (@chrisinsilico), TWITTER (Mar. 18, 2018).

35 ⁶⁷⁹ Nicole Perlroth, Sheera Frenkel & Scott Shane, *Facebook Exit Hint at Dissent on Handling of
 36 Russian Trolls*, N.Y. Times (Mar. 19, 2018).

1 698. However, as additional details emerged concerning the scope of the data breach, the
2 risks facing the Company, and increased calls for government investigations, Facebook’s stock price
3 resumed its decline, closing at \$159.39 on Friday, March 23, 2018, completing an overall decline of
4 \$25.70/share (14%) from the closing price the prior Friday before the scandal broke.

5 699. On March 27, 2018, the price of Facebook common stock fell by \$7.84/share, a 4.9%
6 decline from the prior day’s close. This decline was the result of continuing revelations of the lack
7 of user control, the Cambridge Analytica data misuse and the risks to the Company, including the
8 FTC’s confirmation that it had opened an investigation into Facebook’s compliance with the 2012
9 FTC Consent Decree.

10 700. During the period from March 20, 2018 through March 27, 2018, reporters continued
11 to link the news about Cambridge Analytica’s continued control and misuse of millions of Facebook
12 users’ data directly to the notion that users and even Facebook lacked control over user data. For
13 example:

14 (a) A March 20, 2018 article published in *The Guardian* quoted Parakilas,
15 Facebook’s former platform operations manager: “Asked what kind of control Facebook had over
16 the data given to outside developers, [Parakilas] replied: ‘Zero. Absolutely none. Once the data left
17 Facebook servers there was not any control, and there was no insight into what was going on.’”⁶⁸⁰

18 (b) A March 20, 2018 article published by BBC News about the Cambridge
19 Analytica scandal asked: “The bigger question becomes – what does [Facebook] share with others
20 and what can users do to regain control of their information?” According to the article, Dr. Paul
21 Bernal, a lecturer in Information Technology, Intellectual Property and Media Law at the University
22 of East Anglia School of Law, indicated: “There really is only one way to make sure data we create
23 on a daily basis remains entirely private ‘Leave Facebook.’” The article further noted that “the
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27 ⁶⁸⁰ Paul Lewis, *‘Utterly horrifying’: ex-Facebook insider says covert data harvesting was routine*,
28 *Guardian* (Mar. 20, 2018).

1 hashtag #DeleteFacebook is now trending on Twitter in the wake of the Cambridge Analytica
2 scandal.”⁶⁸¹

3 (c) A March 21, 2018 article published by CBS News quoted one academic from
4 the University of Munich, Professor Jens Grossklags, as stating: “Consumers don’t often understand
5 what they are sharing and what controls they are giving up.”⁶⁸²

6 (d) A March 28, 2018 article published by Reuters titled: “Facebook to change
7 privacy controls in wake of data scandal” stated: “Facebook announced a series of changes on
8 Wednesday [March 28, 2018] to give users more control over their data, after a huge data scandal
9 which has wiped more than \$100 billion from its stock market value.”⁶⁸³ This article quoted a blog
10 post from Erin Egan, Facebook’s Vice President and Deputy General Counsel, as stating that
11 Facebook was now “taking additional steps in the coming weeks to put people in more control over
12 their privacy.” The article further noted that “Facebook shares have fallen almost 18 per cent since
13 March 17 [2018]. Users’ data was improperly accessed by British political consultancy Cambridge
14 Analytica, which was hired by Donald Trump’s 2016 presidential campaign.”⁶⁸⁴

15 (e) A March 28, 2018 article by NPR also commented on the Facebook platform
16 changes in the wake of the news regarding Cambridge Analytica, stating that, “Facebook responded
17 to intensifying criticism over its mishandling of user data Wednesday [March 28, 2018] by
18 announcing new features to its site that will give users more visibility and control over how their
19 information is shared.” This article also noted that angry users have “called for a #DeleteFacebook
20 boycott.”⁶⁸⁵

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22 ⁶⁸¹ Jane Wakefield, *Is leaving Facebook the only way to protect your data?*, BBC News (Mar. 20,
23 2018).

24 ⁶⁸² Aimee Picchi, *Facebook: Your personal info for sale*, CBS News (Mar. 21, 2018).

25 ⁶⁸³ Joseph Menn, *UPDATE 1-Facebook’s security chief to depart, source says*, Reuters (Mar. 19,
26 2018).

26 ⁶⁸⁴ *Id.*

27 ⁶⁸⁵ Yuki Noguchi, *Facebook Changing Privacy Controls As Criticism Escalates*, NPR (Mar. 28,
28 2018).

1 701. As noted above, Facebook itself conceded by its actions that the Cambridge Analytica
2 scandal concerned user control over data because it responded to the news by announcing new
3 platform features designed to “put people more in *control* of their privacy.”⁶⁸⁶

4 702. On April 26, 2018, Facebook’s stock price rocketed upwards by 9% as the Company
5 reported 1Q18 earnings which, together with the statements made by defendants on the earnings call
6 that day, led many analysts and investors to believe that the data breach had only had a negligible
7 impact on user engagement with Facebook’s platform.

8 703. On June 3, 2018, *The New York Times* published the article discussed above
9 concerning Facebook’s improper whitelisting practices. While there were certain new details in the
10 article, it was not sufficiently distinct from the March 2018 disclosures to trigger a significant sell-
11 off in Facebook stock. At this point in time, Facebook’s stock price already incorporated the March
12 2018 news relating to Cambridge Analytica, which had revealed the essential facts disclosed in the
13 June 3 article: that users did not have control over their Facebook data or their privacy on the
14 Facebook platform because users did not know that their data was being shared with numerous third
15 parties. For instance, as noted above, on March 20, 2018 the *Guardian* already had reported the
16 account of Facebook insider Parakilas that the Cambridge Analytica scandal was not confined to
17 Cambridge Analytica and “numerous companies” had likely gained control of “hundreds of
18 millions” of Facebook users’ data such that “Parakilas estimates that a ‘majority of Facebook users’
19 could have had their data harvested by app developers without their knowledge.”⁶⁸⁷

20 704. Multiple news reports placed the June 3 article in context as a follow-on to the March
21 2018 revelations around Cambridge Analytica. For instance, on June 4, 2018, an AP article stated
22 that the June 3 “report taps into *continuing anxiety* about the information users give up – and to
23 whom – when they use Facebook.”⁶⁸⁸ Indeed, the June 4 AP article referenced an April 24, 2018
24 disclosure by Facebook and noted that: “the company recently said it will end these data-sharing

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26 ⁶⁸⁶ *It’s Time to Make Our Privacy Tools Easier to Find*, Facebook (Mar. 28, 2018).

27 ⁶⁸⁷ *See also* Ex. C at 10.

28 ⁶⁸⁸ Barbara Ortutay, *New Facebook privacy furor: What’s at stake?*, AP News (June 4, 2018).

1 agreements as part of a broader review of its privacy practices *sparked by the Cambridge Analytica*
2 scandal.”⁶⁸⁹ The article further stated that: “These device-maker deals could raise concerns *similar*
3 *to those in Facebook’s recent Cambridge Analytica* scandal.”

4 705. A CNN Business report on June 4, 2018 noted that the whitelisting issues “may only
5 add fuel to the fire of existing investigations into Facebook at the state and federal level, including a
6 Federal Trade Commission probe into the company’s data practices.”⁶⁹⁰ Another article that day
7 discussed the June 3 disclosure as one that should have come as no surprise to Facebook users and
8 investors, saying: “Facebook’s attempts to justify its mishandling of user data have become a broken
9 record . . . the company has proven *time and time again* it cannot be trusted to take user privacy
10 seriously . . . the fact remains that its user information has spread far beyond any boundaries the
11 company can control.”⁶⁹¹ A report in *USA Today* noted that “this [June 3] development is the latest
12 in a *series of revelations* on Facebook’s data sharing practices . . . Zuckerberg has apologized for not
13 doing enough to protect user data.”⁶⁹² An Axios story similarly noted that the story closely followed
14 the Cambridge Analytica scandal and “*reinforces* the picture of a company that’s been less than
15 forthcoming at key moments.”⁶⁹³

16 706. Finally, Facebook was successful in downplaying to the market the significance of its
17 whitelisting arrangements, which also prevented a significant sell-off of Facebook stock. On June 4,
18 Facebook published a blog post entitled: “Why We Disagree With *The New York Times*,” in which
19 Facebook reassured the market that its whitelisting arrangements were harmless and falsely insisted
20 that data was not shared without user consent. Facebook claimed in the blog post that it “controlled

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22 ⁶⁸⁹ *Id.*

23 ⁶⁹⁰ Seth Fiegerman, *Facebook faces new regulatory backlash over data privacy*, CNN Business
(June 4, 2018).

24 ⁶⁹¹ Amy Gesenhues, *Facebook faces more scrutiny, this time for sharing user data with device*
25 *makers*, Marketing Land (June 4, 2018).

26 ⁶⁹² Ashley Wong, *Facebook gave some developers access to users’ friends after policy changed*,
USA Today (June 8, 2018).

27 ⁶⁹³ David McCabe, *Facebook shared friends’ data with third parties beyond cutoff date*, Axios
28 (June 8, 2018).

1 [the whitelisting arrangements] tightly from the get-go” and that whitelisted entities “signed
2 agreements that prevented people’s Facebook information from being used for any other purpose
3 than to recreate Facebook-like experiences.”⁶⁹⁴ Facebook was also quoted by CNN as saying that
4 *The New York Times* “is wrong about user controls.” The press picked up on these denials by
5 Facebook and reported, for instance, that “it is not clear how the device makers could have abused
6 Facebook even if they wanted to [and] so far there’s no evidence that phone and tablet makers used
7 Facebook data improperly.”⁶⁹⁵

8 707. On July 25, 2018, Facebook announced its earnings for the second quarter of 2018.
9 This was the first full quarter of Facebook results since the Cambridge Analytica data scandal news
10 had surfaced in March 2018. This announcement revealed the true extent of the damage that the
11 revelations about Cambridge Analytica had on Facebook’s business and caused Facebook’s stock to
12 plummet by nearly 19% - from \$217.50 per share at the close on July 25, 2018 to \$176.26 per share
13 at the close on July 26, 2018. This staggering single-day loss wiped out approximately \$100 billion
14 in shareholder value and, at the time, was the largest such one-day drop in U.S. history. Defendants
15 revealed that the data privacy scandal had caused a far greater impact on the Company than they had
16 previously represented, resulting in dramatically lowered user engagement, substantially decreased
17 advertising revenue and earnings, and reduced growth expectations going forward.

18 708. For example, on Facebook’s July 25, 2018 earnings call, Wehner stated: “we expect
19 our revenue growth rates to decline by high single digit percentages from prior quarters” due to, *inter*
20 *alia*, Facebook “. . . giving people who use our services more choices around data privacy, which
21 may have an impact on our revenue growth.” This caused significant concern among securities
22 analysts. Indeed, Defendants engaged in the following exchange with a securities analyst from
23 Citigroup:

24 **Mark May:** Just following up on the comments. Sheryl [Sandberg] mentioned that
25 there’s really no meaningful impact on GDPR to the ad business, at least as of now.
But then, Dave, I think you mentioned that because you’re giving people more

26 ⁶⁹⁴ Ben Lovejoy, *Apple, Samsung, Microsoft and others given ‘deep access’ to Facebook user data,*
27 *9TO5Mac* (June 4, 2018).

28 ⁶⁹⁵ Barbara Ortutay, *New Facebook privacy furor: What’s at stake?*, AP News (June 4, 2018).

1 control over their privacy and data, that this is one of the reasons why you're
2 expecting the meaningful decel [*i.e.*, deceleration] in the second half. Just trying to
3 reconcile those two things. Maybe the questions are – have been too specific around
4 the impact of GDPR and should be more broad around data and privacy. And I
5 guess, ultimately, the question is what impact, if any, is these greater controls that
6 you're giving users having on ad revenue growth and monetization?

7 **David Wehner:** Sure, Mark. Let me take that. So GDPR didn't have a significant
8 impact in Q2 partially because of its implementation date. So you're just seeing
9 effectively 1 month of it. In terms of revenue, we do think that there will be some
10 modest impact. And I don't want to overplay these factors, but you've got a couple
11 things going on. You've got the impact of the opt-outs. And while we're very
12 pleased with the vast majority of people opting into the third-party data use, some did
13 not. So that'll have a small impact on revenue growth. And then we're also seeing
14 some impact from how advertisers are using their own data for targeting, so again,
15 that'll have a modest impact on growth. And then in addition, we're continuing to
16 focus our product development around putting privacy first, and that's going to, we
17 believe, have some impact on revenue growth. So it's really a combination of kind
18 of how we're approaching privacy as well as GDPR and the like. So I think all of
19 those factors together are one of the factors that we're talking about

20 709. As for user engagement declining, Zuckerberg stated: "I also want to talk about
21 privacy. GDPR was an important moment for our industry. We did see a decline in monthly actives
22 [*i.e.*, users] in Europe – down by about 1 million people as a result." This decline was also directly
23 linked to control issues because the GDPR is designed to provide people with privacy and control
24 over their data. Indeed, Facebook's practice of sharing data with whitelisted third parties without
25 knowledge or consent and by overriding privacy controls is a plain violation of the GDPR. So
26 Zuckerberg's admission that GDPR resulted in a decline in active users in Europe is an
27 acknowledgment that providing users with the ability to control their data caused this decline in user
28 engagement.

710. The decline in user engagement, advertising revenues, and guidance for the remainder
of the year – alongside the increased spending that Facebook was required to undertake to protect
user data from being exploited – were the result of defendants' concealment of the risks arising from
the Cambridge Analytica data breach; defendants' false assurances about the adequacy of the
Company's prior response to that incident; and the adequacy of the measures that defendants
imposed to prevent similar events from occurring in the future or to curtail the harm if they did.

711. Facebook's quarterly results were a direct and proximate result of the concealed
problems with the Company's decision to grow at the expense of protecting user privacy. The

1 Company's costs ballooned to \$7.4 billion, a 50% increase from the prior year. Much of the increase
2 resulted from measures imposed to protect user data from exploitation, including to provide the level
3 of protection that the Company had previously, and falsely, asserted it was already providing.
4 Capital expenditures similarly rose 133% from the prior year, reflecting spending on infrastructure
5 necessary to render Facebook's services safe for users.

6 712. Investors and analysts explicitly connected the historic decline in Facebook's market
7 capitalization to the Cambridge Analytica scandal – and Facebook's response to the scandal by
8 giving users more control, as well as related privacy concerns, including the recent implementation
9 of GDPR in Europe, that had shaken the Company over the previous months.

10 713. For instance, on July 26, 2018, CFRA issued a report noting, “[w]e lower our EPS
11 estimates for 2018 to \$7.29 from \$7.42 and 2019 to \$8.24 from \$8.63, given what we see as FB's
12 *efforts to invest significantly to respond to the Cambridge Analytica revelations.*”⁶⁹⁶ Cowen
13 similarly noted that the decline in advertising revenue that Facebook was bringing in was driven in
14 part by “*privacy via features that could reduce ad targeting capabilities* (like clearing user history)
15 and GDPR impact on users in Europe (as some users don't opt in for tracking usage).”⁶⁹⁷ Wells
16 Fargo noted its concern over the negative impact “*of the continued efforts around security and*
17 *privacy*, both from the standpoint of GDPR implementation as well as new services and controls that
18 offer more ways for users to opt out of ads,” and its report also mentioned the magnitude of the
19 “*Security & Privacy efforts*” that Facebook was now being forced to impose.⁶⁹⁸

20 714. Additionally, J.P. Morgan's report on July 26, 2018, stated: “FB is seeing some
21 headwinds from data & privacy related issues. On the user front, FB MAUs in Europe declined 1M
22 Q/Q and DAUs dropped 3M from 282M in 1Q18 to 279M in 2Q18 as DAU/MAU fell 60bps Q/Q.
23 Europe also saw more significant revenue deceleration than other geos. ***While part of the revenue***

24 ⁶⁹⁶ Scott Kessler, *CFRA Reiterates Hold Opinion on Shares of Facebook, Inc.*, CFRA (July 26,
25 2018).

26 ⁶⁹⁷ John Blackledge, Nick Yako, et al., *2Q18 Results: 2H18 Ad Rev Decel and L-T Margin Forecast*
Worse Than Expected, Cowen (July 26, 2018).

27 ⁶⁹⁸ Ken Sena, Peter Stabler, et al., *FB: Coming Up Against Scale*, Wells Fargo Securities (July 25,
28 2018).

1 *impact was due to FX, we believe FB likely felt data & privacy issues more in Europe, with some*
 2 *early impact from GDPR in terms of both users & monetization.* For 2H18, FB also called out
 3 privacy as likely to drag on revenue growth. FB is giving users more choices around privacy & how
 4 their data is used, & we believe advertisers are also being more cautious around targeting
 5 consumers.”⁶⁹⁹

6 715. Macquarie’s analysts similarly described their “concerns re LT trends/headlines are
 7 forcing significant changes to user privacy/data concerns. In 3Q, we expect that users globally may
 8 be offered options that go well beyond GDPR changes. Such changes are likely a key driver of the
 9 4Q revenue guidance.”⁷⁰⁰

10 716. Barclays issued a research report titled “FB Throws Some Napalm on the Fire” that
 11 described:⁷⁰¹

12 **Key Take-Away: Either Core Is Imploding or FB Wants Self-Inflicted Pain**

13 We haven’t seen this disastrous a print since the 1Q16 LNKD-massacre that brought
 14 the entire NASDAQ down. The two theories we could come up with as to why FB is
 15 guiding revenue down severely with 3Q and 4Q now expected to both decelerate
 16 high single digits sequentially are: 1) they don’t want to create the perception of
 getting rich while their product presents issues for society (but why didn’t this
 happen on the Jan/April calls?), or 2) *there are more serious engagement problems
 with core Facebook that have materialized recently that they are trying to fix.*

17 717. Journalists and commentators also connected Facebook’s earnings report for the
 18 second quarter of 2018 to the privacy scandals that had ensnared the Company earlier in the year.
 19 For example, CNBC headlined its July 25, 2018 video report on Facebook’s earnings miss,
 20

21 _____
 22 ⁶⁹⁹ Doug Anmuth, Ashwin Kesireddy, et al., *Major Reset Stories & Data/Privacy Drag on N-T Revs*
 23 *Heavy Investments Continue; Remain OW, PT to \$205 Dropping from AFL*, J.P. Morgan (July 26,
 2018).

24 ⁷⁰⁰ Benjamin Schachter, Ed Alter & Angela Newell, *2Q’18 Bombshell Guidance; Structural Shifts*,
 25 *Macquarie Research* (July 26, 2018); *see also* Shelby Seyrafi, CFA, *FB: Major Guidance Reset, but*
 26 *we Suspect the Company is Conservatively Creating a Lower Bar*, FBN Securities (July 26, 2018)
 (“Drivers of the deceleration On privacy/GDPR, the data we came across was a bit mixed, but
 it appears that the negative impact was worse than we had modeled. . . . Moreover, this was with
 basically a half-quarter’s impact from GDPR, as this was instituted in May.”).

27 ⁷⁰¹ Ross Sandler, Deepak Mathivanan, et al., *FB Throws Some Napalm On The Fire*, Barclays
 28 *Equity Research* (July 26, 2018).

1 “Facebook shares collapse *as a result of Cambridge Analytica*.”⁷⁰² Bloomberg noted on July 25,
 2 2018, “Facebook Takes Historic Plunge as *Scandals Finally Take a Toll*.”⁷⁰³ The New York Times
 3 similarly headlined its story, “Facebook starts paying a price for scandals”⁷⁰⁴ CNET.com’s reporting
 4 suggested that the July 2018 stock collapse was the inevitable end-point of the Company’s
 5 continuing response to the Cambridge Analytica privacy scandal, noting, “Until now . . . there was a
 6 sense that the vast majority of users didn’t fully understand Facebook’s business. But the ongoing
 7 scandals have caused many people to take another look.”⁷⁰⁵

8 718. Reporting for *Forbes* in a July 29, 2018 article titled “Profit Versus Privacy:
 9 Facebook’s Stock Collapse and its Empty ‘Privacy First’ Policy,” Kalev Leetaru described, “At the
 10 center of [Facebook’s] pessimistic outlook? The *increasing impact of the profit versus privacy*
 11 *battle at the center of the Cambridge Analytica story* and the growing inability of Facebook to
 12 control its platform and protect it from harmful misuse.”⁷⁰⁶ In *Tech Republic*, James Sanders
 13 published a report on that described the “fallout from a confluence of factors in the *Facebook data*
 14 *privacy scandal* has come to bear in the last week of July 2018.”⁷⁰⁷ *USA Today* noted that the
 15 “Cambridge Analytica scandal [was] one of many reasons for [Facebook’s] stock plunge.”⁷⁰⁸ And
 16 The Washington Post explained, “The cost of years of privacy missteps finally caught up with
 17 Facebook this week. . . . Worries about the rising costs of privacy regulations and controversies,
 18
 19

20 _____
 21 ⁷⁰² Julia Boorstin, *Facebook shares collapse as a result of Cambridge Analytica election scandal*,
 CNBC (July 25, 2018).

22 ⁷⁰³ Sarah Frier, *Facebook Takes Historic Plunge as Scandals Finally Take a Toll*, Bloomberg (July
 23 25, 2018).

24 ⁷⁰⁴ Sheera Frankel, *Facebook Starts Paying a Price for Scandals*, N.Y. Times (July 25, 2018).

25 ⁷⁰⁵ Richard Hieva, *Facebooks bad year just got worse*, CNet.com (July 26, 2018).

26 ⁷⁰⁶ Kalev Leetaru, *Profit Versus Privacy: Facebook’s Stock Collapse and its Empty ‘Privacy First’*
Policy, Forbes (July 29, 2018).

27 ⁷⁰⁷ James Sanders, *Facebook data privacy: A cheat sheet*, Tech Republic (Sept. 12, 2018).

28 ⁷⁰⁸ Jessica Gynn, *Why Facebook had its worst day is complicated*, USA Today (July 28, 2018).

1 along with declining growth in users and revenue played a key role in a major Wall Street sell-off
2”⁷⁰⁹

3 719. Overseas, the news reports were comparable. *The Guardian* reported on July 26,
4 2018, “More than \$119bn (£90.8bn) has been wiped off Facebook’s market value, which includes a
5 \$17bn hit to the fortune of its founder, Mark Zuckerberg, ***after the company told investors that user***
6 ***growth had slowed in the wake of the Cambridge Analytica scandal.***”⁷¹⁰ The Independent (U.K.)
7 also headlined an article, “Facebook shares ***plummet over privacy scandal*** and slow growth in new
8 users.”⁷¹¹

9 720. Additional analysts, press outlets and other market commentators also linked
10 Facebook’s 2Q18 results and the resulting stock price decline directly to the Cambridge Analytica
11 scandal, the privacy initiatives that Facebook was implementing in order to provide users control
12 over their data in the wake of the Cambridge Analytica scandal, as well as Facebook’s efforts to
13 comply with GDPR, including its imposition of user data control requirements. For example:

14 (a) On July 25, 2018, an analyst from UBS wrote: “Regulation & Data Privacy –
15 Management expects modest revenue impact from MAU decline (‘opt-outs’) due to regulation &
16 privacy concerns, mainly in Europe (Q2 saw a 3m DAU decline in Europe).”

17 (b) On July 25, 2018, a Wells Fargo analyst wrote: “The pressures cited [by
18 Facebook on the 2Q18 Earnings Call] were . . . the effects of the continued efforts around security
19 and privacy, both from the standpoint of GDPR implementation as well as new services and controls
20 that offer more ways for users to opt out of ads. Additionally, on the cost side, the factors cited by
21 magnitude were Security & Privacy efforts (now in the billions per annum)”

22 (c) On July 25, 2018, a William Blair analyst wrote: “Facebook shares are down
23 about 20% in the after-market, due to a lowered growth and profitability outlook versus Street

24 ⁷⁰⁹ Craig Timberg and Elizabeth Dwoskin, *How years of privacy controversies finally caught up*
25 *with Facebook*, Wash. Post (July 26, 2018).

26 ⁷¹⁰ Rupert Neate, *Over \$119bn wiped off Facebook’s market cap after growth shock*, Guardian (July
26, 2018).

27 ⁷¹¹ Tom Embury-Dennis, *Facebook shares plummet over privacy scandal and slow growth in new*
28 *users*, Independent (July 25, 2018).

1 expectations. On growth, management noted a few factors that will negatively affect growth,
2 including . . . GDPR, privacy changes, and any potential future regulation changes.” William Blair
3 further stated: “Revenue to decelerate meaningfully in the second half of 2018. Management called
4 out three reasons why it expects the company’s year-over-year revenue growth rate to decline
5 sequentially by high single digits in each of the next two quarters . . . [including] New data privacy
6 tools could limit targeting capabilities. This includes the potential impact from GDPR in addition to
7 new tools Facebook has developed that give users more choice around the data that can be shared
8 with advertisers for ad targeting.”

9 (d) On July 25, 2018, *Investor’s Business Daily* wrote: “Facebook (FB) stock
10 plunged 10% after the company released earnings. But then shares plummeted as much as 23% to
11 167 during its earnings call commentary. [. . .] Bears pounced on how Europe’s new General Data
12 Protection Regulations, or GDPR, and other consumer data privacy initiatives will impact
13 Facebook’s revenue growth.”⁷¹²

14 (e) On July 25, 2018, the Australian Broadcasting Corporation wrote: “Facebook
15 stocks have plunged by as much as 24 per cent in after-hours trading due to concerns about the
16 impact of privacy issues on the social media company’s business,” and “[t]he plummeting stock
17 price wiped out about \$US150 billion in the company’s market value in less than two hours.” This
18 report also quoted Morningstar analyst Ali Mogharabi as stating: “[w]hen it comes to much slower
19 revenue growth . . . we think it’s due to slower user growth given GDPR and more focus on
20 privacy.”

21 (f) On July 25, 2018, *The Verge* wrote: “[o]n an earnings call with investors,
22 Facebook leadership did say that giving users more privacy controls would in the future cut into its
23 advertising revenues . . . it seems as if Facebook is not the untouchable behemoth investors seem to
24 think it is.”⁷¹³

26 ⁷¹² Reinhardt Krause and Brian Deagon, *Facebook Stock Crashes On Earnings Call Warning After*
27 *Revenue Misses*, *Investor’s Business Daily* (July 25, 2018).

28 ⁷¹³ Nick Statt, *Facebook growth slows in aftermath of privacy scandals*, *The Verge* (July 25, 2018).

1 (g) On July 25, 2018, *U.S. News & World Report* noted that Facebook missed
2 analyst expectations concerning monthly active users and daily active users metrics and quoted the
3 COO of FileCloud as stating: “‘It turns out there is indeed a direct correlation between data privacy
4 scandals and daily active users on Facebook.’”⁷¹⁴

5 (h) On July 26, 2018, *The Guardian* wrote: “Facebook’s shares plunged 19% . . .
6 after the Silicon Valley company revealed that 3 million users in Europe had abandoned the social
7 network since the Observer revealed the Cambridge Analytica breach of 87m Facebook profiles and
8 the introduction of strict European Union data protection legislation.” It further stated: “David
9 Wehner, Facebook’s chief financial officer, said on Wednesday [July 25, 2018] that the company’s
10 decision to give its users ‘more choices around data privacy’ following the Cambridge Analytica
11 scandal ‘may have an impact on our revenue growth.’”⁷¹⁵

12 (i) On July 26, 2018, *Investor’s Business Daily* wrote that Facebook’s 2Q18
13 earnings results were “the first full quarter of Facebook (FB) results since the Cambridge Analytica
14 data scandal surfaced earlier this year. Analysts raised concerns as to whether the scandal would
15 cause advertisers to slink away or user growth to slow. That appears to be the case to a degree.”⁷¹⁶

16 (j) On July 28, 2018, *USA Today* wrote that Facebook’s 2Q18 earnings results
17 “left no doubt that Cambridge Analytica and a barrage of other scandals have taken a serious toll
18”⁷¹⁷

19 (k) On July 26, 2018, *Forbes* wrote: “Following months of negative press,
20 including the Cambridge Analytica data breach, Facebook missed second-quarter projections for
21 both growth in revenue and growth in the number of daily active users across North America and
22

23 _____
24 ⁷¹⁴ John Divine, *Facebook Stock Plunges on Earnings*, U.S. News & World Report (July 25, 2018).

25 ⁷¹⁵ Rupert Neate, *Over \$119bn wiped off Facebook’s market cap after growth shock*, Guardian (July
26 26 2018).

27 ⁷¹⁶ Brian Deagon, *IBD 50 Stocks To Watch: Facebook Stock Plunges On Weak Results*, Investor’s
28 Business Daily (July 26, 2018).

⁷¹⁷ Jessica Gynn, *Why Facebook had its worst day is complicated*, USA Today (July 28, 2018).

1 Europe. Investors were further rattled by a comment from Facebook CFO David Wehner, who said
2 Facebook’s revenue growth would continue to slow down for the rest of 2018.”⁷¹⁸

3 (l) On July 26, 2018, *Yahoo Finance* wrote: “Facebook CFO Dave Wehner
4 warned that revenue growth for the third- and fourth-quarters would decelerate in the high-single
5 digits because of factors that include more data privacy options”⁷¹⁹

6 (m) On July 26, 2018, *CRN Australia* wrote: “Facebook’s stock fell as much as 24
7 percent . . . on Wednesday [July 25, 2018] over concerns about the impact of privacy issues on the
8 social media company’s business, with executives warning that revenue growth would slow and
9 expenses would rise. The plummeting stock price wiped out about US\$150 billion in market
10 capitalisation in under two hours.”⁷²⁰

11 (n) On July 26, 2018, *Variety* wrote: “the introduction of new controls for users to
12 limit their data-sharing with Facebook ‘may have an impact on our revenue growth.’”⁷²¹

13 (o) On July 26, 2018, Aegis Capital Corp. wrote: “The deceleration per FB is due
14 to . . . data privacy controls, including GDPR impacts.”

15 (p) On July 26, 2018, Evercore ISI wrote: “Why is the outlook calling for revenue
16 deceleration? While bears may suspect core Facebook engagement challenges may be to blame,
17 management’s stated drivers are . . . 3) the company providing users more choices around data
18 privacy”

19 (q) On July 26, 2018, MKM Partners wrote: “The stock traded off by 10% into
20 the call. The CFO [Wehner] then warned that revenue growth would decelerate by high single-digits
21

22
23 ⁷¹⁸ Madeline Berg, *On A Bad Day For Facebook Stock, Mark Zuckerberg’s Net Worth Plunges \$15.4 Billion*, *Forbes* (July 26, 2018).

24 ⁷¹⁹ JP Mangalindan, *Facebook user numbers and revenue guidance disappoint, stock collapses*,
25 *Yahoo Finance* (July 26, 2018).

26 ⁷²⁰ Munsif Vengattil & Paresh Dave, *Facebook loses US\$150 billion in market value over privacy concerns*, *CRN Australia* (July 26, 2018).

27 ⁷²¹ Todd Spangler, *Facebook Loses \$120 Billion in Market Value, as Stock Slides on Fears Growth Is Hitting a Wall*, *Variety* (July 26, 2018).
28

1 sequentially Management highlights three areas for its revenue outlook . . . (iii) product focus
2 on choice around user privacy, which could have an impact on monetization.”

3 **C. Dr. Cain’s Expert Analysis Confirms Lead Plaintiffs’ Loss Causation**
4 **Allegations**

5 721. In addition, Lead Counsel retained an expert economist, Matthew D. Cain, Ph.D., to
6 opine on loss causation issues for pleading purposes. Dr. Cain is a Senior Fellow at the Berkeley
7 Center for Law and Business and a Senior Visiting Scholar at Berkeley Law School, University of
8 California. He has a Ph.D. in Finance from Purdue University and has published research in leading
9 finance, accounting, law, and economics journals, including the *Journal of Financial Economics*, the
10 *Journal of Law and Economics*, the *Journal of Accounting and Economics*, the *Journal of Empirical*
11 *Studies*, and the *Journal of Financial and Quantitative Analysis*. From 2014 to 2018, Dr. Cain
12 worked at the SEC, where he provided economic analysis and expert witness testimony on behalf of
13 the SEC in a wide variety of enforcement investigations, settlement negotiations and litigation. He
14 also served as an advisor to SEC Commissioner Robert J. Jackson, Jr. and was awarded the
15 Chairman’s Award for Economic Research. Prior to working at the SEC, Dr. Cain was an Assistant
16 Professor of Finance at the University of Notre Dame.⁷²²

17 722. In particular, Lead Counsel retained Dr. Cain to provide opinions on: (1) whether the
18 alleged misstatements and/or omissions would be expected to impact the investing decisions of a
19 reasonable investor; and (2) whether price declines in Facebook’s common stock in March 2018 and
20 on July 26, 2018 following corrective disclosures were statistically significant and were, from an
21 economic perspective, proximately caused by the revelation of the truth concerning Defendants’
22 alleged prior misstatements and/or omissions (*i.e.*, loss causation) and whether the price increase on
23 April 26, 2018 was due to artificial inflation created by Defendants’ alleged misrepresentations
24 and/or omissions.⁷²³

25 723. Based on his analysis, Dr. Cain opined that, on each of the alleged corrective
26 disclosures discussed in his declaration, “new information was revealed to the market concerning the

27 ⁷²² See Ex. C at 1-2.

28 ⁷²³ *Id.* at 2-3.

1 continued misuse of user data by Cambridge Analytica, the extent and scope of Facebook’s data
2 privacy issues, and the lack of user control over data provided to Facebook. This information would
3 be expected to carry importance in the investing decisions of a reasonable investor.”⁷²⁴ Dr. Cain
4 further opined that these alleged corrective disclosures “significantly altered the information
5 environment available to investors in Facebook securities” and “would be expected to have an
6 impact on the investing decisions of a reasonable investor.”⁷²⁵

7 724. Dr. Cain also opined that: “the price declines in Facebook’s common stock on March
8 19, 2018, March 20, 2018, March 27, 2018 and July 25, 2018 were statistically significant” and were
9 “economically sizeable, representing many billions of dollars of shareholder losses.”⁷²⁶ Dr. Cain
10 further opined that: “from an economic perspective, these declines were *proximately caused* by the
11 revelation of the truth concerning Defendants’ alleged misrepresentations and/or omissions.”⁷²⁷

12 725. In addition to the facts set forth above, Dr. Cain’s loss causation opinions further
13 support Lead Plaintiffs’ allegations that the alleged corrective disclosures caused declines in the
14 price of Facebook’s common stock price – and that members of the proposed Class suffered
15 economic losses as a direct and proximate result of Defendants’ violations of the federal securities
16 laws as alleged herein.

17 **IX. Class Action Allegations**

18 726. Lead Plaintiffs bring this action as a class action pursuant to Rule 23 of the Federal
19 Rules of Civil Procedure on behalf of all persons who purchased or otherwise acquired Facebook
20 common stock during the Class Period (the “Class”). Excluded from the Class are defendants and
21 their immediate families, directors and officers of Facebook and their immediate families, and each
22 of the foregoing persons’ legal representatives, heirs, successors or assigns, and any entity in which
23 defendants have or had a controlling interest.

24 _____
25 ⁷²⁴ *Id.* at 4; *see also id.* at 26.

26 ⁷²⁵ *Id.* at 5; *see also id.* at 25-26.

27 ⁷²⁶ *Id.* at 5; *see also id.* at 26.

28 ⁷²⁷ *Id.* at 5; *see also id.* at 26.

1 727. The members of the Class are so numerous that joinder of all members is
2 impracticable. The disposition of their claims in a class action will provide substantial benefits to
3 the parties and the Court. During the Class Period, Facebook had more than 2.395 billion shares of
4 common stock outstanding, owned by hundreds or thousands of persons.

5 728. There is a well-defined community of interest in the questions of law and fact
6 involved in this case. Questions of law and fact common to the members of the Class that
7 predominate over questions that may affect individual Class members include:

- 8 (a) Whether the 1934 Act was violated by defendants;
9 (b) Whether defendants omitted and/or misrepresented material facts;
10 (c) Whether defendants' statements omitted material facts necessary in order to
11 make the statements made, in light of the circumstances under which they were made, not
12 misleading;
13 (d) Whether defendants knew or recklessly disregarded that their statements were
14 false and misleading;
15 (e) Whether the price of Facebook common stock was artificially inflated; and
16 (f) The extent of damage sustained by Class members and the appropriate
17 measure of damages.

18 729. Lead Plaintiffs' claims are typical of those of the Class because Lead Plaintiffs and
19 the Class sustained damages from defendants' wrongful conduct.

20 730. There is a presumption that each of the members of the Class relied on the
21 misrepresentations and omissions alleged herein, pursuant to the fraud on the market theory as well
22 as under *Affiliated Ute Citizens of Utah v. United States*, 406 U.S. 128 (1972) where the acts
23 complained of are predicated upon omissions of material facts.

24 731. The misconduct alleged herein operated as a fraud on the market as it impacted the
25 market price of Facebook common stock, including because:

- 26 (a) Defendants made public misrepresentations or failed to disclose material facts
27 during the Class Period;
28 (b) the omissions and misrepresentations were material;

1 (c) the Company's stock traded in an efficient market;
2 (d) the misrepresentations alleged would tend to induce a reasonable investor to
3 misjudge the value of the Company's stock; and

4 (e) Lead Plaintiffs and other members of the Class purchased Facebook common
5 stock between the time defendants misrepresented or failed to disclose material facts and the time the
6 true facts were disclosed, without knowledge of the misrepresented or omitted facts.

7 732. Lead Plaintiffs will adequately protect the interests of the Class and have retained
8 counsel who are experienced in class action securities litigation. Lead Plaintiffs have no interest that
9 conflicts with those of the Class.

10 733. A class action is superior to other available methods for the fair and efficient
11 adjudication of this controversy.

12 **X. Claims for Relief**

13 **COUNT I**

14 **For Violation of §10(b) of the 1934 Act and Rule 10b-5**
15 **Against All Defendants**

16 734. Lead Plaintiffs incorporate all prior allegations by reference.

17 735. During the Class Period, defendants disseminated or approved the false statements
18 specified above, which they knew or recklessly disregarded were misleading in that they contained
19 misrepresentations and failed to disclose material facts necessary in order to make the statements
20 made, in light of the circumstances under which they were made, not misleading.

21 736. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they:

22 (a) Employed devices, schemes and artifices to defraud;
23 (b) Made untrue statements of material fact or omitted to state material facts
24 necessary in order to make the statements made, in light of the circumstances under which they were
25 made, not misleading; or

26 (c) Engaged in acts, practices and a course of business that operated as a fraud or
27 deceit upon plaintiff and others similarly situated in connection with their purchases of Facebook
28 common stock during the Class Period.

1 material, nonpublic information shall be liable in an action ... to any person who,
 2 contemporaneously with the purchase or sale of securities that is the subject of such violation, has
 3 purchased (where such violation is based on a sale of securities) or sold (where such violation is
 4 based on a purchase of securities) securities of the same class.” 15 U.S.C. §78t-1(a).

5 743. Throughout the Class Period, defendant Zuckerberg was in possession of material
 6 nonpublic information regarding Facebook’s deficient privacy protections and material risks to the
 7 Company.

8 744. Defendant Zuckerberg’s aggregated daily insider sales of his Facebook Class A
 9 common stock during the Class Period are shown in the table below:

Trade Date	Shares	Insider Sale Proceeds	Trade Date	Shares	Insider Sale Proceeds
2/27/2017	192,874	\$26,249,516	4/6/2018	145,000	\$23,049,687
2/28/2017	193,242	\$26,249,687	4/9/2018	162,000	\$25,765,797
3/8/2017	190,638	\$26,249,493	4/10/2018	162,000	\$26,077,639
3/9/2017	189,998	\$26,249,525	4/11/2018	145,000	\$24,059,149
3/17/2017	187,604	\$26,249,636	4/12/2018	145,000	\$23,853,082
3/20/2017	187,728	\$26,249,745	4/13/2018	145,000	\$23,885,937
3/30/2017	70,219	\$9,999,858	4/16/2018	145,000	\$23,893,540
3/31/2017	70,275	\$9,999,797	4/17/2018	145,000	\$24,348,750
4/11/2017	187,767	\$26,249,778	4/18/2018	145,000	\$24,190,673
4/12/2017	187,687	\$26,249,593	4/19/2018	162,000	\$27,014,864
5/16/2017	141,950	\$21,249,850	4/20/2018	162,000	\$27,052,706
5/17/2017	144,437	\$21,249,779	4/23/2018	145,000	\$24,161,233
5/26/2017	140,064	\$21,249,886	4/24/2018	145,000	\$23,426,871
5/30/2017	139,469	\$21,249,655	4/25/2018	145,000	\$23,087,982
6/8/2017	138,149	\$21,249,717	4/26/2018	212,557	\$37,088,554
6/9/2017	138,846	\$21,249,129	4/27/2018	177,028	\$30,883,270
6/21/2017	138,813	\$21,249,578	4/30/2018	156,967	\$27,260,171
6/22/2017	138,205	\$21,249,941	5/1/2018	145,000	\$24,908,295
6/29/2017	140,841	\$21,249,271	5/2/2018	220,000	\$38,862,071
6/30/2017	140,595	\$21,249,035	5/3/2018	199,530	\$34,808,784
7/12/2017	134,599	\$21,249,617	5/4/2018	237,000	\$41,697,212
7/13/2017	133,501	\$21,249,680	5/7/2018	237,000	\$42,287,824
8/14/2017	124,625	\$21,249,796	5/8/2018	220,000	\$39,186,693
8/15/2017	124,359	\$21,249,595	5/9/2018	220,000	\$39,885,285
8/25/2017	127,342	\$21,249,709	5/10/2018	220,000	\$40,669,369
8/28/2017	127,183	\$21,249,553	5/11/2018	220,000	\$40,987,320
9/7/2017	123,644	\$21,249,717	5/14/2018	220,000	\$41,137,360

	Trade Date	Shares	Insider Sale Proceeds	Trade Date	Shares	Insider Sale Proceeds
1						
2	9/8/2017	123,503	\$21,249,854	5/15/2018	220,000	\$40,479,883
3	9/19/2017	123,815	\$21,249,679	5/16/2018	220,000	\$40,354,785
4	9/20/2017	123,637	\$21,249,477	5/17/2018	220,000	\$40,343,839
5	9/29/2017	124,633	\$21,249,547	5/18/2018	237,000	\$43,391,467
6	10/2/2017	124,894	\$21,249,517	5/21/2018	237,000	\$43,683,830
7	10/11/2017	123,485	\$21,249,788	5/22/2018	220,000	\$40,553,419
8	10/12/2017	122,752	\$21,249,620	5/23/2018	220,000	\$40,618,621
9	11/14/2017	119,230	\$21,249,761	5/24/2018	220,000	\$40,934,971
10	11/15/2017	119,485	\$21,249,412	5/25/2018	220,000	\$40,745,841
11	11/27/2017	116,141	\$21,249,533	5/29/2018	220,000	\$40,790,973
12	11/28/2017	115,997	\$21,249,612	5/30/2018	220,000	\$41,182,290
13	12/7/2017	119,098	\$21,249,707	5/31/2018	220,000	\$41,937,965
14	12/8/2017	117,829	\$21,249,838	6/1/2018	237,000	\$45,853,073
15	2/12/2018	220,000	\$38,635,723	6/4/2018	237,000	\$45,737,922
16	2/13/2018	177,200	\$30,929,013	6/5/2018	220,600	\$42,718,882
17	2/14/2018	220,000	\$39,026,000	6/6/2018	220,000	\$41,897,754
18	2/15/2018	245,400	\$43,901,109	6/7/2018	220,000	\$41,413,594
19	2/16/2018	245,400	\$43,719,265	6/8/2018	220,000	\$41,513,378
20	2/20/2018	220,000	\$38,835,127	6/11/2018	220,000	\$42,033,413
21	2/21/2018	228,400	\$40,904,384	6/12/2018	220,000	\$42,309,938
22	2/22/2018	228,400	\$40,881,223	6/13/2018	237,000	\$45,760,485
23	2/23/2018	220,000	\$40,014,898	6/14/2018	267,000	\$52,214,130
24	2/26/2018	220,000	\$40,618,821	6/15/2018	250,000	\$48,974,895
25	2/27/2018	220,000	\$40,253,285	6/18/2018	247,500	\$49,027,822
26	2/28/2018	245,400	\$44,529,455	6/19/2018	240,000	\$47,044,460
27	3/1/2018	245,400	\$43,423,597	6/20/2018	240,000	\$48,417,988
28	3/2/2018	220,000	\$38,500,131	6/21/2018	240,000	\$48,461,671
	3/5/2018	220,000	\$39,410,874	6/22/2018	240,000	\$48,211,475
	3/6/2018	220,000	\$39,720,907	6/25/2018	240,000	\$47,074,618
	3/7/2018	220,000	\$39,907,908	6/26/2018	240,000	\$47,451,913
	3/8/2018	228,400	\$41,692,621	6/27/2018	257,000	\$51,140,945
	3/9/2018	228,400	\$42,162,003	6/28/2018	257,000	\$50,254,415
	3/12/2018	220,000	\$40,732,522	6/29/2018	236,615	\$46,329,394
	3/13/2018	220,000	\$40,225,112	7/2/2018	240,000	\$46,799,219
	3/14/2018	245,400	\$44,942,497	7/3/2018	212,600	\$41,166,309
	3/15/2018	245,400	\$44,939,108	7/5/2018	240,000	\$47,066,812
	3/16/2018	220,000	\$40,594,574	7/6/2018	240,000	\$48,316,665
	3/19/2018	175,246	\$30,504,876	7/9/2018	240,000	\$48,996,111
	3/20/2018	145,000	\$24,158,892	7/10/2018	257,000	\$52,357,773
	3/21/2018	153,400	\$25,808,227	7/11/2018	257,000	\$52,255,054
	3/22/2018	152,700	\$25,441,367	7/12/2018	240,000	\$49,371,961

Trade Date	Shares	Insider Sale Proceeds	Trade Date	Shares	Insider Sale Proceeds
3/23/2018	145,000	\$23,674,979	7/13/2018	240,000	\$49,752,309
3/26/2018	145,000	\$22,555,546	7/16/2018	240,000	\$49,841,323
3/27/2018	153,539	\$24,175,526	7/17/2018	240,000	\$49,981,589
3/28/2018	140,200	\$21,527,971	7/18/2018	240,000	\$50,343,432
3/29/2018	145,000	\$22,978,944	7/19/2018	240,000	\$50,047,178
4/2/2018	145,000	\$22,610,877	7/20/2018	240,000	\$50,404,452
4/3/2018	145,000	\$22,462,916	7/23/2018	257,000	\$54,134,125
4/4/2018	145,000	\$22,237,405	7/24/2018	257,000	\$55,141,446
4/5/2018	145,000	\$23,081,281	7/25/2018	240,000	\$52,010,641
			Total	29,451,835	\$5,297,581,009

745. Contemporaneously with defendant Zuckerberg's insider sales, Lead Plaintiffs purchased a total of 260,091 shares of Facebook Class A common stock for a total of more than \$44.6 million between February 3, 2017 and July 25, 2018. Lead Plaintiffs' contemporaneous purchases included:

Lead Plaintiff	Date	Shares	Purchase Amount	No. of Days After Zuckerberg Sale
Mississippi	3/17/2017	4,050	\$566,329	Same day
Mississippi	3/21/2017	16,219	\$2,272,893	1 day
Amalgamated	3/31/2017	3,611	\$512,961	Same day
Amalgamated	4/3/2017	1,387	\$197,349	3 days
Mississippi	6/16/2017	4,035	\$607,796	7 days
Amalgamated	6/23/2017	3,937	\$610,530	1 day
Amalgamated	8/16/2017	100	\$17,013	1 day
Mississippi	8/16/2017	5,200	\$883,812	1 day
Amalgamated	8/29/2017	300	\$50,428	1 day
Amalgamated	8/29/2017	10	\$1,681	1 day
Mississippi	9/15/2017	1,311	\$225,008	7 days
Amalgamated	9/18/2017	1	\$170	10 days
Amalgamated	10/3/2017	20	\$3,401	1 day
Amalgamated	10/19/2017	10	\$1,741	7 days
Mississippi	12/15/2017	3,218	\$579,787	7 days
Amalgamated	12/18/2017	226	\$40,866	10 days
Amalgamated	3/2/2018	1,200	\$210,823	Same day
Amalgamated	3/2/2018	50	\$8,784	Same day
Mississippi	3/16/2018	2,898	\$536,368	Same day
Amalgamated	3/19/2018	1,414	\$244,007	Same day
Mississippi	3/19/2018	62,000	\$10,634,662	Same day
Amalgamated	3/20/2018	1,800	\$293,672	Same day
Amalgamated	3/20/2018	50	\$8,158	Same day
Mississippi	3/26/2018	55,000	\$8,590,126	Same day
Amalgamated	4/11/2018	300	\$49,995	Same day
Amalgamated	4/11/2018	10	\$1,666	Same day

Lead Plaintiff	Date	Shares	Purchase Amount	No. of Days After Zuckerberg Sale
Mississippi	4/27/2018	18,978	\$3,305,763	Same day
Amalgamated	5/2/2018	60	\$10,599	Same day
Mississippi	5/14/2018	9,444	\$1,766,417	Same day
Amalgamated	5/29/2018	100	\$18,632	Same day
Amalgamated	6/8/2018	2,021	\$382,191	Same day
Mississippi	6/13/2018	34,609	\$6,690,716	Same day
Mississippi	6/15/2018	3,132	\$613,372	Same day
Amalgamated	6/19/2018	100	\$19,562	Same day
Amalgamated	6/19/2018	10	\$1,956	Same day
Amalgamated	6/22/2018	6,155	\$1,241,771	Same day
Mississippi	6/27/2018	16,214	\$3,211,359	Same day
Mississippi	7/17/2018	911	\$189,251	Same day
Total		260,091	\$44,601,615	

746. Tens of thousands of other Class members, if not more, also purchased shares contemporaneously with defendant Zuckerberg's insider sales during the Class Period. Facebook had a total of nearly 7.6 billion shares traded in the United States during the Class Period, or an average daily trading volume of more than 20.4 million shares. On each of the days that defendant Zuckerberg sold his Facebook shares, between \$8.5 million and \$129.8 million shares were traded to investors, including members of the Class.

747. Lead Plaintiffs and other Class members who purchased shares of Facebook common stock contemporaneously with defendant Zuckerberg's insider sales suffered damages because: (i) in reliance on the integrity of the market, they paid artificially inflated prices as a result of the defendants' violations of §§10(b) and 20(a) of the 1934 Act; and (ii) they would not have purchased Facebook common stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially inflated by defendants' false and misleading statements and omissions.

XI. Prayer for Relief

WHEREFORE, Lead Plaintiffs pray for judgment as follows:

A. Determining that this action is a proper class action, designating plaintiffs as Lead Plaintiffs and certifying Lead Plaintiffs as class representatives under Rule 23 of the Federal Rules of Civil Procedure and Plaintiffs' Counsel as a Class Counsel;

B. Awarding Lead Plaintiffs and the members of the Class damages and interest;

C. Awarding Lead Plaintiffs' reasonable costs, including attorneys' fees; and

1 D. Awarding such equitable/injunctive or other relief as the Court may deem just and
2 proper.

3 **XII. Jury Demand**

4 Lead Plaintiffs demand a trial by jury.

5 DATED: October 16, 2020

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20 DATED: October 16, 2020

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22 JEREMY P. ROBINSON

24 s/ John C. Browne
JOHN C. BROWNE

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Counsel for Kacouris and Additional Counsel for
the Class

I, Jason C. Davis, am the ECF User whose ID and password are being used to file this
THIRD AMENDED CONSOLIDATED CLASS ACTION COMPLAINT FOR VIOLATIONS OF
THE FEDERAL SECURITIES LAWS. In compliance with Local Rule 5-1(i)(3), I hereby attest that
counsel for co-lead plaintiff Mississippi, John C. Browne, concurs in this filing.

s/ Jason C. Davis
JASON C. DAVIS

EXHIBIT A

CERTIFICATION PURSUANT TO FEDERAL SECURITIES LAWS

Amalgamated Bank, as Trustee for the LV LargeCap 1000 Growth Index Fund, LongView Quantitative LargeCap Fund, and LongView Quant LargeCap Equity VEBA Fund (“Amalgamated Bank”) declares:

1. Amalgamated Bank has reviewed a complaint filed and adopts its allegations. Plaintiff has authorized the filing of a motion for appointment as lead plaintiff.

2. Amalgamated Bank did not acquire the security that is the subject of this action at the direction of counsel or to participate in this private action or any other litigation under the federal securities laws.

3. Amalgamated Bank is willing to serve as a representative party on behalf of the class, including providing testimony at deposition and trial, if necessary.

4. Amalgamated Bank has made the following transaction(s) during the Class Period in the securities that are the subject of this action:

<u>Security</u>	<u>Transaction</u>	<u>Date</u>	<u>Price Per Share</u>
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See attached Schedule A.

5. (a) Amalgamated Bank has been appointed to serve as a representative party for a class in the following actions filed under the federal securities laws within the three-year period prior to the date of this Certification:

Grae v. Corrections Corporation of America, et al., No. 3:16-cv-2267 (M.D. Tenn.)
In re Cognizant Technology Solutions Corporation Sec. Litig., No. 2:16-cv-06509 (D.N.J.)
In re Maximus, Inc. Sec. Litig., No. 1:17-cv-00884 (E.D. Va.)

(b) Amalgamated Bank is seeking to serve as a representative party for a class in the following actions filed under the federal securities laws:

None.

(c) Amalgamated Bank initially sought to serve as a representative party for a class in the following actions filed under the federal securities laws within the three-year period prior to the date of this Certification:

Menold v. Navient Corporation, et al., No. 1:16-cv-00075 (D. Del.)
In re Allergan Generic Drug Pricing Sec. Litig., No. 2:16-cv-09449 (D.N.J.)
Shenk v. Mallinckrodt plc, et al., No. 1:17-cv-00145 (D.D.C.)
Craig v. CenturyLink, Inc., et al., No. 3:17-cv-01005 (W.D. La.)

6. Amalgamated Bank will not accept any payment for serving as a representative party on behalf of the class beyond Amalgamated Bank's pro rata share of any recovery, except such reasonable costs and expenses (including lost wages) directly relating to the representation of the class as ordered or approved by the court.

I declare under penalty of perjury that the foregoing is true and correct. Executed this 11 day of October, 2018.

Amalgamated Bank, as Trustee for the LV
LargeCap 1000 Growth Index Fund, LongView
Quantitative LargeCap Fund, and LongView
Quant LargeCap Equity VEBA Fund

By:



Eleanor Innes, Senior Vice President &
Director of Equities, Investment
Management Division

SCHEDULE A

SECURITIES TRANSACTIONS

LongView Quant LargeCap Equity VEBA Fund

<u>Date Acquired</u>	<u>Amount of Shares Acquired</u>	<u>Price</u>
05/03/2017	50	\$152.31
08/29/2017	10	\$168.09
10/03/2017	20	\$170.03
10/19/2017	10	\$174.14
01/18/2018	50	\$180.28
02/05/2018	120	\$187.67
03/02/2018	50	\$175.69
03/20/2018	50	\$163.15
04/11/2018	10	\$166.65
05/02/2018	60	\$176.65
06/19/2018	10	\$195.62

<u>Date Sold</u>	<u>Amount of Shares Sold</u>	<u>Price</u>
02/08/2017	70	\$133.91
04/19/2017	200	\$142.26
06/01/2017	40	\$151.57
06/28/2017	160	\$151.71
07/17/2017	10	\$159.29
08/17/2017	300	\$166.90
11/28/2017	20	\$182.41
01/02/2018	100	\$181.41
04/16/2018	300	\$164.82
04/30/2018	150	\$171.99
07/19/2018	30	\$207.99

*Opening position of 4,020 shares.

LongView Quantitative LargeCap Fund

<u>Date Acquired</u>	<u>Amount of Shares Acquired</u>	<u>Price</u>
08/16/2017	100	\$170.13
08/29/2017	300	\$168.09
02/05/2018	3,200	\$187.67
03/02/2018	1,200	\$175.69
03/20/2018	1,800	\$163.15
04/11/2018	300	\$166.65
05/29/2018	100	\$186.32
06/19/2018	100	\$195.62

<u>Date Sold</u>	<u>Amount of Shares Sold</u>	<u>Price</u>
02/21/2017	100	\$132.87
03/09/2017	400	\$138.08
03/21/2017	100	\$140.24
04/19/2017	300	\$142.33
04/25/2017	800	\$146.48
05/03/2017	600	\$152.02
06/01/2017	1,200	\$151.57
06/28/2017	4,500	\$151.71
07/17/2017	600	\$159.29
08/04/2017	200	\$169.39
09/19/2017	700	\$171.93
09/26/2017	2,300	\$164.20
11/02/2017	500	\$178.56
11/28/2017	3,300	\$182.41
07/19/2018	700	\$207.99

*Opening position of 105,500 shares.

LV LargeCap 1000 Growth Index Fund

<u>Date Acquired</u>	<u>Amount of Shares Acquired</u>	<u>Price</u>
03/31/2017	3,611	\$142.06
04/03/2017	1,387	\$142.29
05/02/2017	662	\$152.79
06/23/2017	3,937	\$155.08
08/03/2017	4,864	\$168.60
08/11/2017	1,418	\$168.09
09/18/2017	1	\$170.02
12/18/2017	226	\$180.83
12/29/2017	3,209	\$176.47
01/02/2018 ^A	28,105	\$181.42
01/10/2018	21,202	\$187.85
03/19/2018	1,414	\$172.57
06/08/2018	2,021	\$189.11
06/22/2018	6,155	\$201.75

<u>Date Sold</u>	<u>Amount of Shares Sold</u>	<u>Price</u>
06/14/2017	824	\$150.24
06/26/2017	585	\$153.58
10/23/2017	2,149	\$171.26
02/07/2018	1,423	\$180.17
03/07/2018	1,518	\$183.70
03/16/2018	1,339	\$185.08
06/05/2018	8,555	\$192.93
06/21/2018	956	\$201.49

*Opening position of 43,203 shares.

^AShares that were received in.

EXHIBIT B

**Public Employees' Retirement System of Mississippi
Transactions in Facebook, Inc.**

<u>Transaction</u>	<u>Date</u>	<u>Shares</u>	<u>Price</u>
Purchase	3/17/2017	4,050	139.8345
Purchase	3/21/2017	16,219	140.1377
Purchase	6/16/2017	4,035	150.6310
Purchase	8/16/2017	5,200	169.9639
Purchase	9/15/2017	1,311	171.6305
Purchase	12/15/2017	3,218	180.1700
Purchase	2/7/2018	117,000	183.1775
Purchase	3/16/2018	2,898	185.0820
Purchase	3/19/2018	62,000	171.5268
Purchase	3/26/2018	55,000	156.1841
Purchase	4/27/2018	18,978	174.1892
Purchase	5/14/2018	9,444	187.0412
Purchase	6/13/2018	34,609	193.3230
Purchase	6/15/2018	3,132	195.8404
Purchase	6/27/2018	16,214	198.0609
Purchase	7/17/2018	911	207.7400
Sale	2/6/2017	(22,495)	132.0600
Sale	3/6/2017	(2,822)	137.4200
Sale	3/6/2017	(8,280)	137.4200
Sale	4/11/2017	(16,219)	139.8034
Sale	8/11/2017	(21,276)	168.0800
Sale	8/25/2017	(11,103)	166.3200
Sale	9/25/2017	(10,754)	162.8700
Sale	12/13/2017	(11,125)	178.3000
Sale	2/8/2018	(17,609)	171.5800
Sale	2/8/2018	(366)	171.5452
Sale	2/20/2018	(17,918)	176.0100

EXHIBIT C

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN JOSE DIVISION

In re FACEBOOK, INC. SECURITIES LITIGATION)	Master File No. 5:18-cv-01725-EJD
_____)	
This Document Relates To:)	
ALL ACTIONS.)	
_____)	

EXPERT DECLARATION OF MATTHEW D. CAIN, Ph.D.

October 15, 2020

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I. Background and Qualifications

1. I am a Senior Fellow at the Berkeley Center for Law and Business and a Senior Visiting Scholar at Berkeley Law School, University of California. I teach courses, deliver guest lectures, participate in academic seminars, and conduct research in various topic areas related to finance, economics, accounting, law, and business. My research focuses on a variety of topics such as empirical corporate finance, corporate governance, board independence, mergers and acquisitions, hostile takeovers, shareholder lawsuits, negotiations, financial contracting, disclosures of financial information, and shareholder activism. I previously held a fellowship with the Harvard Law School Program on Corporate Governance, where I participated in research seminars and related activities.

2. I worked at the U.S. Securities and Exchange Commission (“SEC”) between 2014 and 2018. During that time, I provided economic analysis and expert witness testimony on behalf of the SEC in a wide variety of enforcement investigations, settlement negotiations and litigation, including cases alleging accounting fraud, revenue recognition practices, and disclosure violations. I also served as an advisor to SEC Commissioner Robert J. Jackson, Jr., during which time I assisted with enforcement oversight and policymaking decisions, research, and speechwriting on a wide range of topics including securities violations, revenue recognition practices, and corporate governance issues. Additionally, while employed at the SEC as a Financial Economist, I continued to work on and publish academic research, and I was awarded the Chairman’s Award for Economic Research.

3. Prior to working at the SEC, I was an Assistant Professor of Finance at the University of Notre Dame. I taught courses in Mergers and Acquisitions to both undergraduate and graduate students, and I also conducted empirical research on various finance, legal, accounting, and economic topics. I have been engaged in academic research for over a decade

and continue to publish in law reviews and peer-reviewed academic journals across these disciplines.

4. Prior to working at Notre Dame, I received a Ph.D. in Finance from Purdue University in 2007. Prior to those studies, I worked as an analyst in Debt Capital Markets at National City Bank, where I assisted companies in raising syndicated loans and private placements of debt and equity for use in funding mergers, acquisitions, and other general corporate purposes. I received a B.S. in Finance from Grove City College in 2001.

5. In addition to teaching at UC Berkeley, Notre Dame and Purdue, I have delivered guest lectures to undergraduate and graduate students at Vanderbilt University, Arizona State University, Cornell University, and UC Berkeley School of Law. I have also presented my academic research at numerous academic, governmental, and professional institutions, as listed in my curriculum vitae, which is attached as **Appendix A**.

6. I have published research in leading finance, accounting, law, and economics journals including the *Journal of Financial Economics*, *Journal of Law and Economics*, *Journal of Accounting and Economics*, *Journal of Empirical Legal Studies*, and *Journal of Financial and Quantitative Analysis*. My curriculum vitae, attached as **Appendix A**, further details my publications and previous testimony.

II. Summary of Opinions

7. I was retained by Lead Counsel to evaluate the information environment surrounding alleged corrective disclosures involving Facebook (“Facebook” or the “Company”) in this case throughout March 2018, following Facebook’s April 25, 2018 1Q2018 earnings release, and surrounding Facebook’s July 25, 2018 2Q2018 earnings release to evaluate the following: (1) whether the alleged misstatements and/or omissions would be expected to impact the investing decisions of a reasonable investor; (2) whether price declines in Facebook’s

common stock in March 2018 and on July 26, 2018 following alleged corrective disclosures, were statistically significant and were, from an economic perspective, proximately caused by the revelation of the truth concerning Defendants’¹ alleged prior misrepresentations and/or omissions (i.e., loss causation) and whether the price increase on April 26, 2018 was due to artificial inflation created by Defendants’ alleged misrepresentations and/or omissions.²

8. I am being compensated at my standard rate of \$750 per hour for my work on this matter. My compensation is not in any way contingent upon the outcome of the opinions I express or the outcome of this case.

9. In the following sections I describe the evidence relating to new information provided to the market on these dates. I have not been asked to calculate damages or to quantify the exact magnitude of Facebook’s stock price movements in response to such information and relative to other information revealed on the respective dates. My work in this area is ongoing and I reserve the right to update my opinions based on additional analyses, documents reviewed, or information provided to me. For purposes of my analysis, I assume the truth of Plaintiffs’³ allegations that Defendants’ misrepresentations and omissions at issue in this case were materially false and misleading when made, and that Defendants acted with the requisite mental state.

10. In connection with my work, I have called upon the knowledge and experience gained during my professional career. My opinions are based on my experience and expertise in

¹ “Defendants” means Facebook, Inc., Mark Zuckerberg, Sheryl K. Sandberg, and David M. Wehner.

² Facebook’s 1Q2018 earnings release was provided after-hours on April 25, 2018 and the Company’s 2Q2018 earnings release was provided after-hours on July 25, 2018. Throughout my report I refer to Facebook’s stock price declines on the following dates, April 26, 2018 and July 26, 2018, respectively.

³ “Plaintiffs” means Lead Plaintiff Amalgamated Bank and Public Employees’ Retirement System of Mississippi and named plaintiffs Ernestine Bennett, Fan Yuan, Fern Helms, and James Kacouris.

finance, mergers and acquisitions, hostile takeovers, corporate governance, and financial reporting, and are not intended to represent legal conclusions or opinions.

11. By way of summary, based on my experience and analysis of the materials I have reviewed in this matter, my opinions can be summarized as follows:

- a. I conclude that on each of the following dates, new information was revealed to the market concerning the continued misuse of user data by Cambridge Analytica, the extent and scope of Facebook's data privacy issues, and the lack of user control over data provided to Facebook. This information would be expected to carry importance in the investing decisions of a reasonable investor.
 - i. March 16-17, 2018, March 19-20, 2018, and March 26-27, 2018: Multiple revelations of data privacy weaknesses, including Cambridge Analytica's improper control over and continued misuse of Facebook user data and lack of user control over data on the Facebook platform, as well as potential for backlash from users of the service.
 - ii. April 25, 2018 (after-hours): Facebook reported 1Q2018 earnings and executives provided statements during the earnings call that represented to investors that the privacy and user data control issues were not significantly impacting user engagement with the service.
 - iii. July 25, 2018 (after-hours): Facebook reported 2Q2018 earnings and revealed that the privacy issues, including issues concerning users' control over their data on the Facebook platform, were negatively impacting user engagement, advertising revenues, and regulatory and mitigation costs,

and would continue to negatively impact these items in the coming quarters.

These revelations concerning Facebook's privacy practices, Cambridge Analytica's continued misuse and control over user data and users' control over their own data on the Facebook platform significantly altered the information environment available to investors in Facebook securities. All of the various disclosures would be expected to have an impact on the investing decisions of a reasonable investor.

- b. I conclude that the price declines in Facebook's common stock on March 19, 2018, March 20, 2018, March 27, 2018 and July 26, 2018 were statistically significant. Moreover, they were economically sizeable, representing many billions of dollars of shareholder losses. Further, from an economic perspective, these declines were proximately caused by the revelation of the truth concerning Defendants' alleged misrepresentations and/or omissions.

III. Brief Summary of Plaintiffs' Allegations

12. By way of brief summary, Plaintiffs allege that, during the Class Period⁴, Defendants made materially false and misleading statements concerning Facebook's privacy practices, including control over user data, respecting user privacy, risks to Facebook's business, the results of Facebook's investigation into Cambridge Analytica's data misuse, Facebook's response to instances of data misuse, compliance with a FTC consent decree, and notifying users whose accounts had been compromised or were at risk of being compromised.

⁴ "Class Period" means February 3, 2017 through July 25, 2018, inclusive.

13. Plaintiffs further allege that corrective information concerning Defendants' alleged misrepresentations entered the market throughout March 2018 and on July 25, 2018 (after-hours), which proximately caused the declines in the price of Facebook's common stock in March 2018 and on July 26, 2018.

IV. Analysis of the Alleged Corrective Disclosure Events

14. In the following sections I summarize the evidence relating to the new information provided to investors in the alleged corrective disclosures during this time period.

A. March 2018

15. On Friday, March 16, 2018 (after-hours), Facebook attempted to preempt the coming negative news coverage about the Company's data privacy and control weaknesses by posting a news item on its corporate website concerning Cambridge Analytica's continued improper control over and misuse of Facebook user data and Facebook's responsive efforts to provide users control over their data. The following day on Saturday, March 17, 2018, news media reported on Cambridge Analytica's continued misuse of Facebook user data, exposing among other things Facebook's data privacy weaknesses and lack of user control over their data. Additional news and information continued to be disseminated on March 19 and 20, as well as in the following days. Facebook's executives Zuckerberg and Sandberg provided media interviews on March 21 and subsequently in an attempt to control the information environment around the Company's data privacy controls. As a result, during this time period investors began to become aware of Cambridge Analytica's continued misuse of user data, Facebook's data privacy and control weaknesses, lack of user control over their personal data, and the potential valuation impact this could have on the Company. For example, the following information was revealed after market hours on March 16-17, 2018:

- a. “In 2014, after hearing feedback from the Facebook community, we made an update to ensure that each person decides what information they want to share about themselves, including their friend list. This is just one of the many ways we give people the tools to control their experience.”⁵
- b. “[Cambridge Analytica] harvested private information from the Facebook profiles of more than 50 million users without their permission, according to former Cambridge employees, associates, and documents...” And, “Only about 270,000 users – those who participated in the survey – had consented to having their data harvested.” And, “...a former employee said that he had recently seen hundreds of gigabytes on Cambridge servers, and that the files were not encrypted.” And, “...copies of the data still remain beyond Facebook’s control. The Times viewed a set of raw data from the profiles Cambridge Analytica obtained.”⁶

16. Additional news and analysis of this information was published in the following days. For example:

- a. A former Cambridge Analytica employee tweeted “Suspended by @facebook. For blowing the whistle. On something they have known privately for 2 years.”⁷
- b. “Over the weekend, after news broke that Cambridge Analytica had harvested data on as many as 50 million Facebook users, Facebook’s communications team encouraged Mr. Stamos to tweet in defense of the company, but only after it asked to approve Mr. Stamos’s tweets, according to two people briefed on the incident. After the tweets set off a furious response, Mr. Stamos deleted them.”⁸
- c. “[Facebook] emphasizes in its terms of service that ‘you own all of the content and information you post on Facebook, and you can control how it is shared.’ The implication is clear (or should be): You’re in the driver’s seat. If you don’t want your info shared with others, it won’t be. The reality is: Your data belong to Facebook, and the company will enrich itself by doing with it whatever it pleases.”⁹
- d. “Facebook Inc. shares are on pace to post their largest percentage decline in four years, as the company comes under fire from regulators for allowing a third-party group to access user information without those people’s permission.” And, “Stifel

⁵ Paul Grewel, Suspending Cambridge Analytica and SCL Group from Facebook, *Facebook* (Mar. 16, 2018), <https://about.fb.com/news/2018/03/suspending-cambridge-analytica/>.

⁶ Matthew Rosenberg, Nicholas Confessore and Carole Cadwalladr, How Trump consultants exploited the Facebook data of millions, *New York Times* (Mar. 17, 2018), <https://www.nytimes.com/2018/03/17/us/politics/cambridge-analytica-trump-campaign.html>.

⁷ @chrisinsilico, *Twitter* (Mar. 18, 2018), <https://tinyurl.com/yd9do32r>.

⁸ Nicole Perlroth, Sheera Frenkel and Scott Shane, Facebook exit hints at dissent on handling of Russian trolls, *New York Times* (Mar. 19, 2018), <https://www.nytimes.com/2018/03/19/technology/facebook-alex-stamos.html>.

⁹ David Lazarus, Column: Facebook says you ‘own’ all the data you post. Not even close, say privacy experts, *Los Angeles Times* (Mar. 19, 2018), <https://www.latimes.com/business/lazarus/la-fi-lazarus-facebook-cambridge-analytica-privacy-20180320-story.html>.

analyst Scott Devitt said Facebook hasn't moved swiftly enough to address security concerns about its platform and that the company has been too quick to brush off concerns from critics. He believes the changes Facebook needs to make to restore user trust and tackle these security issues could 'ultimately lead to lower engagement and negative monetization implications.'"¹⁰

- e. "My concerns were that all of the data that left Facebook servers to developers could not be monitored by Facebook, so we had no idea what developers were doing with the data..." And, "Asked what kind of control Facebook had over the data given to outside developers, [Sandy Parakilas] replied: 'Zero. Absolutely none. Once the data left Facebook servers there was not any control, and there was no insight into what was going on.'"¹¹
- f. "There really is only one way to make sure data we create on a daily basis remains entirely private, thinks Dr Bernal. 'Leave Facebook.' 'The incentive Facebook will have to protect people more will only come if people start leaving. Currently it has very little incentive to change,' he told the BBC. It seems he is not alone in his call - the hashtag #DeleteFacebook is now trending on Twitter in the wake of the Cambridge Analytica scandal."¹²
- g. "The misuse of personal information from as many as 50 million Facebook user accounts is setting off alarm bells with lawmakers and privacy advocates. What does Facebook know about you, and who has access to that data? The short answer: Facebook likely knows far more about you than you may suspect, and the data may be in the hands of more advertisers and app developers than you realize."¹³
- h. "Facebook responded to intensifying criticism over its mishandling of user data Wednesday by announcing new features to its site that will give users more visibility and control over how their information is shared. The changes, rolling out in coming weeks, will also enable users to prevent the social network from sharing that information with advertisers and other third parties. 'Last week showed how much more work we need to do to enforce our policies and help people understand how Facebook works and the choices they have over their

¹⁰ Mark DeCambre and Emily Bary, Facebook sheds nearly \$40 billion of market cap as investors flee stock, *MarketWatch* (Mar. 19, 2018), <https://www.marketwatch.com/story/facebook-sheds-more-than-40-billion-of-market-cap-as-investors-flee-stock-2018-03-19>.

¹¹ Paul Lewis, 'Utterly horrifying': ex-Facebook insider says 'covert data harvesting was routine, *The Guardian* (Mar. 20, 2018), <https://www.theguardian.com/news/2018/mar/20/facebook-data-cambridge-analytica-sandy-parakilas>.

¹² Jane Wakefield, Is leaving Facebook the only way to protect your data?, *BBC News* (Mar. 20, 2018), <https://www.bbc.com/news/technology-43469656>.

¹³ Aimee Picchi, Facebook: Your personal info for sale, *CBS News* (Mar. 21, 2018), <https://www.cbsnews.com/news/facebook-your-personal-info-for-sale/>.

data,' Facebook Chief Privacy Officer Erin Egan and Deputy General Counsel Ashlie Beringer wrote in a statement.”¹⁴

- i. “Last week showed how much more work we need to do to enforce our policies and help people understand how Facebook works and the choices they have over their data. We’ve heard loud and clear that privacy settings and other important tools are too hard to find and that we must do more to keep people informed. So in addition to Mark Zuckerberg’s announcements last week – cracking down on abuse of the Facebook platform, strengthening our policies, and making it easier for people to revoke apps’ ability to use your data – we’re taking additional steps in the coming weeks to put people more in control of their privacy. Most of these updates have been in the works for some time, but the events of the past several days underscore their importance.”¹⁵
- j. “Facebook announced a series of changes on Wednesday to give users more control over their data, after a huge data scandal which has wiped more than \$100 billion from its stock market value. The company has faced a global outcry after a whistleblower revealed, on March 17, that data from 50 million users was improperly harvested to target U.S. and British voters in close-run elections. ‘The last week showed how much more work we need to do to enforce our policies, and to help people understand how Facebook works and the choices they have over their data,’ Erin Egan, Vice President and Chief Privacy Officer, and Ashlie Beringer, Vice President and Deputy General Counsel at Facebook, wrote in a blog post. ‘So in addition to Mark’s announcements last week – cracking down on abuse of the Facebook platform, strengthening our policies, and making it easier for people to revoke apps’ ability to use your data – we’re taking additional steps in the coming weeks to put people in more control over their privacy.’”¹⁶
- k. “...this does highlight the current unknowns: 1) negative impact to user growth/engagement, and 2) the potential for regulatory activity.”¹⁷
- l. “We cut our 12-month target price by \$40 to \$210. Peers have a median forward P/E of 26.4.X and P/E-to-growth of 1.5. Applying discounts, given more reputational and regulatory risks related to the Cambridge Analytica situation, results in our target.”¹⁸
- m. “Facebook was aware of the privacy breach two years ago. This lack of disclosure could be viewed as a violation of privacy laws in the U.K. and many U.S. states,

¹⁴ Yuki Noguchi, Facebook changing privacy controls as criticism escalates, *NPR* (Mar. 28, 2018), <https://www.npr.org/sections/thetwo-way/2018/03/28/597587830/criticism-prompts-facebook-to-change-privacy-controls>.

¹⁵ Erin Egan and Ashlie Beringer, It’s time to make our privacy tools easier to find, *Facebook* (Mar. 28, 2018), <https://about.fb.com/news/2018/03/privacy-shortcuts/>.

¹⁶ Julia Fioretti, UPDATE 1-Facebook to change privacy controls in wake of data scandal, *Reuters* (Mar. 28, 2018), <https://in.reuters.com/article/facebook-privacy/update-1-facebook-to-change-privacy-controls-in-wake-of-data-scandal-idUSL8N1RA34M>.

¹⁷ Facebook Inc., Opportunity arises, as news flow rubs salt into the wound, *Credit Suisse* (Mar. 19, 2018).

¹⁸ Facebook Inc., *CFRA* (Mar. 20, 2018).

raising further questions about Facebook's approach to data protection and disclosure.”¹⁹

- n. “While our estimates remain unchanged, our target multiple goes lower by two turns to ~23x our 2019 EPS of \$8.83 and our Target Price goes to \$205 from \$225.”²⁰
- o. “We believe the Cambridge Analytica mishap creates a real risk of consumer backlash for social media platforms in general and for Facebook/Instagram/Messenger/Whatsapp in particular, as users demand more control over their data, how it's gathered, for what purpose and when it's being used. This would be reflected in lower user growth and engagement, two metrics already likely to be negatively impacted by changes in the newsfeed, and in higher expenses/lower margins as the company invests heavily to clean up content and ad quality. We're already modeling for a 500bps decline in adj. EBITDA margin FY18 over FY17.”²¹
- p. “But this drumbeat of negative news and headlines increases the risk that there is some user backlash and a negative feedback loop. This increases the chance that users become more hesitant to give FB their data and/or use FB as frequently... which would also likely lead to an eventual advertiser backlash. This is the most important trend to monitor, as weaker user or ad growth are the most material risks to the stock.”²²

17. Through the above revelations, Facebook users and investors began to learn that Facebook users did not control their data on the Facebook platform. They also learned that Facebook’s behavior in this area extended beyond just Cambridge Analytica. For example: “Parakilas does not know how many companies sought friends permission data before such access was terminated around mid-2014. However, he said he believes tens or maybe even hundreds of thousands of developers may have done so. Parakilas estimates that ‘a majority of Facebook users’ could have had their data harvested by app developers without their knowledge...During the time he was at Facebook, Parakilas said the company was keen to encourage more developers to build apps for its platform and ‘one of the main ways to get

¹⁹ Facebook Inc., Remove buy recommendation, William O’Neil (Mar. 20, 2018).

²⁰ Facebook Inc., Darkest hour: Thoughts on yesterday’s selloff, Evercore ISI (Mar. 20, 2018).

²¹ Facebook, Inc. (FB), Latest data privacy issue, ST Mishap for FB/maintain buy, SunTrust Robinson Humphrey (Mar. 20, 2018).

²² Facebook Inc, Top 4 investor questions and our answers, Morgan Stanley (Mar. 20, 2018).

developers interested in building apps was through offering them access to this data.”²³ A June 3, 2018 article in the *New York Times* agreed with this assessment, concluding: “As Facebook sought to become the world’s dominant social media service, it struck agreements allowing phone and other device makers access to vast amounts of its users’ personal information.”²⁴

18. Despite the partial revelation of Facebook’s data privacy and user control weaknesses provided to the market in March 2018, investors were unaware of the full extent of the Company’s weaknesses. Facebook’s executives succeeded in concealing the true extent, nature, and ultimate valuation impact of these issues through their press release and media statements in March 2018. For example, the Facebook post on March 16, 2018 attempting to blunt media scrutiny was updated on March 17, 2018, claiming that “...everyone involved gave their consent. People knowingly provided their information...”²⁵ As a result, by late-March 2018, the market had been misled into believing that Facebook’s data privacy weaknesses would not impact the Company in the future, and that user engagement and advertising revenues remained fairly secure going forward. This is evident through analyst commentary during that time. For example:

- a. “We see current positive ad trends as running counter to investor fears...”²⁶

²³ Paul Lewis, ‘Utterly horrifying’: ex-Facebook insider says covert data harvesting was routine, *The Guardian* (Mar. 20, 2018), <https://www.theguardian.com/news/2018/mar/20/facebook-data-cambridge-analytica-sandy-parakilas>.

²⁴ Gabriel J.X. Dance, Nicholas Confessore, and Michael LaForgia, Facebook gave device makers deep access to data on users and friends, *New York Times* (Jun. 3, 2018), <https://www.nytimes.com/interactive/2018/06/03/technology/facebook-device-partners-users-friends-data.html>. I noted that Facebook denied the primary claims in this article through a post on the same date: Ime Archibong, Why we disagree with the New York Times, *Facebook* (Jun. 3, 2018), <https://about.fb.com/news/2018/06/why-we-disagree-with-the-nyt/>. This denial was reported on by multiple media outlets, e.g.: Facebook fends off new NYT charges over data access, *Reuters* (Jun. 4, 2018).

²⁵ Paul Grewel, Suspending Cambridge Analytica and SCL Group from Facebook, *Facebook* (Mar. 16, 2018), <https://about.fb.com/news/2018/03/suspending-cambridge-analytica/>.

²⁶ Facebook, Wading through the data of a FB story, UBS (Mar. 19, 2018).

- b. “The method in which the app developer in question obtained private user data back in 2015 has since been shut down, easing concerns that others could be improperly collecting similar data today.”²⁷
- c. “We do not as of now foresee current controversy as having a major impact on demand for FB's properties from either users or advertisers, we forecast high 30s revenue growth in 2018 and >25% compounded growth through 2021E.”²⁸
- d. “Specifically, we estimate the potential impact to FB 2018 revenues from Cambridge Analytica, GDPR (EU), and GDPR (ROW) as still quite manageable (~2%) where we walk through an estimate framework.”²⁹
- e. “Advertisers are not likely to respond negatively to this development in our view, as their ROI from this channel remains attractive, and compares relatively well to other marketing channel, as different industry players have indicated at ShopTalk this week.” And, “At ShopTalk yesterday, Caroline Everson, VP of Global Marketing Solutions, defended FB's position saying that 1) the company has zero tolerance for data misuse, 2) it's working to make its ads more transparent, giving consumers more control, 3) it closed the loophole used by Cambridge Analytica in 2015 to gather this information, and 4) it's launching a full scale investigation and will use the full extent of the law if needed to defend itself and remedy the situation.”³⁰
- f. “We see headlines from data breaches & Zuckerberg's announced changes to the timeline as near term headwinds to investor sentiment, but do not believe it will have a material impact on top line growth.” And, “We see the news surrounding Cambridge Analytica as a short term negative for FB, but believe that Cambridge is a bad actor in the space and an anomaly rather than the norm. Cambridge's usage of FB's data was against the terms and service of how the data was initially collected, and FB made an effort to ensure that the data was properly disposed of (however, this proved to not happen). Further reports examining Cambridge Analytica's business practices reveal greater moral discrepancies outside of just misuse of FB's data. FB has instituted changes to its policies for app developers since the initial data harvest, and now conduct robust review of which data an app requests and uses. A similar app to the one exploited by Cambridge would not be allowed to access detailed friends' data today per FB.”³¹

19. In summary, due to the public revelations in March 2018, investors became partially aware of Cambridge Analytica’s continued misuse of and control over Facebook user

²⁷ Facebook’s Carolyn Everson addresses recent news on user data issues, Cowen (Mar. 20, 2018).

²⁸ Facebook Inc., Darkest hour: Thoughts on yesterday’s selloff, Evercore ISI (Mar. 20, 2018).

²⁹ Facebook, Inc., FB: Thank goodness for Instagram, Wells Fargo Securities (Mar. 20, 2018).

³⁰ Facebook, Inc. (FB), Latest data privacy issue, ST mishap for FB/maintain buy, SunTrust Robinson Humphrey (Mar. 20, 2018).

³¹ Facebook, Inc. (FB), Another brick in the wall (of worry), Jefferies (Mar. 20, 2018).

data, Facebook's data privacy weaknesses, and users' lack of control over their personal data provided to Facebook. This information would be expected to be value-relevant to a reasonable investor and analyst commentary during that time period indicates that this new information was important to investors. However, research analysts, investors, and the market were unaware of the true extent, scope, and ultimate negative impact to user engagement and advertising revenues that would result from Facebook's data-sharing practices.

B. April 25-26, 2018

20. Facebook reported the Company's first quarter 2018 financial results after-hours on April 25, 2018. The Company's financial results were strong and were supported by various positive statements from Facebook executives during the earnings call that afternoon. These statements alleviated some of the prior concerns that users would disengage from the Facebook platform and that advertisers would similarly pull back due to concerns over Facebook's data privacy and control weaknesses. Facebook's stock price increased significantly the following day as investors were reassured over the potential fallout from the data privacy issues by Facebook's financial results and its executives' positive statements. Analysts were similarly reassured. For example:

- a. "DAU & MAU showed no impact from Cambridge Analytica (US DAU +1M q/q), in line w/prior mgmt. comments. Mgmt. tone on call was constructive & "back to business," clear shift away from defensive posture of past few weeks."³²
- b. "Incremental news around impacts from the recent Cambridge Analytica (CA) debacle were nil and, alongside mgmt commentary downplaying GDPR impact, will likely accelerate the fading relevance of these topics from investor focus. We believe this will ultimately return the FB narrative to that of strong topline growth and an attractive valuation." And, "The message from mgmt on CA contained

³² Facebook, Inc., Strong 1Q suggests Cambridge Analytica soon to be a distant memory; Maintain outperform, \$225 PT, Oppenheimer (Apr. 25, 2018).

nothing new in terms of costs or change in advertiser behavior, and we continue to believe impactful regulation is a highly unlikely scenario...”³³

- c. “Finally, management addressed important data and privacy issues head-on, outlining new disclosure standards for political ads and hiring aggressively against privacy initiatives. With a compelling Capitol Hill performance by CEO Mark Zuckerberg and these strong results, we think that for the time being, the worst is very likely behind FB stock.”³⁴
- d. “Specifically, we believe management struck the right tone and balance in terms of confidence across its core business and long-term opportunities, while acknowledging that it needs to (and plans to) ensure Facebook has the right tools to keep its ~2.2 billion monthly users safe and secure.”³⁵
- e. “Mgmt reiterated its focus on putting tools in place to ensure user privacy and the platform is safer and more secure via investments in content reviewers (ramping to 20K by end of the year) and investments in AI. Also mgmt hasn't seen any advertiser disruption given recent events, as a few advertisers paused spend initially, but have returned.”³⁶
- f. “Aside from the numbers, we think FB said enough on the earnings call to alleviate concerns around the potential impact from data privacy, especially as GDPR goes into effect in a month in Europe. While increased investments in security and privacy will be headwinds to profitability, we'd note that our EBITDA estimates for 2018 and 2019 are increasing on the advertising strength. Catalysts include continued strong quarterly performance, as the key drivers continue to play out, and successful product launches and monetization.”³⁷
- g. “Despite relentlessly negative headlines related to privacy/data/targeting, FB posted a very strong qtr, with rev and margin upside. Usage trends were also all solid. We thought that the tone of the call was quite bullish and that mgmt. alleviated much of the concern around GDPR and regulatory risk. Additionally, the commentary on messaging monetization (ads) and the growth of Stories was positive.”³⁸

³³ Facebook, Inc. (FB), Strong Q1 + Cambridge Analytica & GDPR set to fade from focus, Remain OW, PiperJaffray (Apr. 25, 2018).

³⁴ Facebook, Strong Q1 with plenty of gas left in the tank, Canaccord Genuity (Apr. 25, 2018).

³⁵ Facebook, Inc. (FB), Investing to protect users data while moving forward with new products and initiatives, JMP Securities (Apr. 26, 2018).

³⁶ Facebook, 1Q18 Review: Beat across the board; Ramping investments expected through 2018, Cowen (Apr. 26, 2018).

³⁷ Facebook, Inc.: Ad strength + upbeat commentary + cheap valuation = buy now, Susquehanna Financial Group (Apr. 26, 2018).

³⁸ Facebook, 1Q'18: Despite headlines, business is strong, Macquarie Research (Apr. 26, 2018).

21. Facebook executives' statements on April 25, 2018 created the false impression among research analysts, investors, and the market that user engagement, advertising revenues, and Company expenses and profitability would not be adversely impacted going forward by Facebook's data privacy weaknesses. Market participants would not learn the full scope of these problems until Facebook reported the following quarter's results.

C. July 25-26, 2018

22. Facebook reported the Company's second quarter 2018 financial results after-hours on July 25, 2018. For the first time, investors were made aware of the ultimate ramifications of Facebook's historically weak enforcement of user data privacy and users' lack of control over their data on the Facebook platform. User engagement with the platform had declined, advertising revenues had declined, Company spending on protecting user data had increased sharply, all relative to prior expectations, and future Company growth expectations were also being guided lower.

23. While Facebook executives attempted to pin the negative trends on GDPR and other exogenous factors, at least one analyst on the earnings call connected the negative performance to Facebook's broader data privacy issues. David Wehner, Facebook's CFO, confirmed this connection in the following conversation:

Mark Alan May
Citigroup Inc, Research Division

Just following up on the comments. Sheryl mentioned that there's really no meaningful impact on GDPR to the ad business, at least as of now. But then, Dave, I think you mentioned that because you're giving people more control over their privacy and data that this is one of the reasons why you're expecting the meaningful decel in the second half. So just trying to reconcile those 2 things. Maybe the questions have been too specific around the impact of GDPR and should be more broad around data and privacy. And I guess, ultimately, the question is what impact, if any, is these greater controls that you're giving users having on ad revenue growth and monetization?

David M. Wehner
Chief Financial Officer

Sure, Mark. Let me take that. So GDPR didn't have a significant impact in Q2 partially because of its implementation date. So you're just seeing effectively 1 month of it. In terms of revenue, we do think that there will be some modest impact. And I don't want to overplay these factors, but you've got a couple things going on. You've got the impact of the opt-outs. And while we're very pleased with the vast majority of people opting into the third-party data use, some did not. So that'll have a small impact on revenue growth. And then we're also seeing some impact from how advertisers are using their own data for targeting, so again, that'll have a modest impact on growth. And then in addition, we're continuing to focus our product development around putting privacy first, and that's going to, we believe, have some impact on revenue growth. So it's really a combination of kind of how we're approaching privacy as well as GDPR and the like. So I think all of those factors together are one of the factors that we're talking about, the other being obviously the currency flip.³⁹

24. Facebook's stock price declined significantly on the following day as investors were finally able to value and price in the outcome of Facebook's user data control problems. Despite Company executives' attempts to divert attention from the resulting fallout due to these issues, analyst commentary still picked up on these problems and discussed the ramifications to Facebook's current and future financial performance. For example:

- a. "Not mentioned during the call was Cambridge Analytica nor the FTC nor the likely fines or other consequences we expect to impact the company. As with Google's recent fines, if the company faced fines worth a few billion dollars, those amounts would not be meaningful to the company. However, we think that other follow-on actions could occur which might be more significant and which also remain as risks to the company."⁴⁰
- b. "The two theories we could come up with as to why Facebook is guiding revenue down severely with 3Q and 4Q now expected to both decelerate high single digits sequentially are: 1) they don't want to create the perception of getting rich while their product presents issues for society (but why didn't this happen on the Jan/April calls?), or 2) there are more serious engagement problems with core Facebook that have materialized recently that they are trying to fix."⁴¹

³⁹ Facebook, Inc. FQ2 2018 Earnings Call Transcripts (*S&P Global Market Intelligence*), Jul. 25, 2018.

⁴⁰ FB: 2Q18 Results OK, but outlook suggests growth "wall" in sight, Pivotal Research Group (Jul. 26, 2018).

⁴¹ Facebook, Inc., FB throws some napalm on the fire, Barclays (Jul. 26, 2018).

- c. “Facebook is still a good buy with 25% upside potential on CMP but it seems to loosing [SIC] its value due to data scandal, cyber security and data confidentiality which can be seen in slow growth of user base.” And, “Facebook shares plunged more than 24% after it announced its Q2FY18 results, the company’s biggest ever drop, wiping out over \$120bn in market value. The social network giant missed the consensus estimates of revenue and global daily active users after struggling with data scandal.”⁴²
- d. “Updated FY:18 guidance was more pessimistic than the Street had expected, driving a substantial sell-off in Facebook shares in the after-market.” And, “We expect Facebook to get back on track by the end of 2019, and expect revenues and profits to grow for many years. However, the Q2 “miss” has caused us to rethink the company’s growth trajectory, and given that we are lowering estimates, we are compelled to lower our price target accordingly.”⁴³
- e. “Facebook also continues to face a range of daunting challenges, *including fallout from the Cambridge Analytica scandal and the Russian troll operation in the 2016 presidential election*, and the recent implementation of the General Data Protection Regulation in Europe.” And, “Facebook posted 2Q18 results after the close on July 25, beating the consensus EPS estimate by \$0.05; however, the company missed the consensus revenue forecast by \$100 million and projected slower revenue growth in 2H18. Management expects growth to slow significantly in both the third and fourth quarters due to multiple factors, including currency headwinds (a reversal from tailwinds in recent quarters); the promotion of Instagram Stories, which carry lower levels of monetization; and spending to increase users' choices regarding data privacy. Facebook shares were of course clobbered on July 26, falling 19%.”⁴⁴
- f. “Q2 brought major surprises for Facebook. Revenue growth is being significantly impacted by Fx, shifting usage towards lower-monetizing Stories, and potentially by GDPR-related headwinds. Of at least equal importance, after concluding a long-term planning process, management lowered long-term operating margin guidance significantly, reflecting higher costs related to safety & security, continued data center expansion, and to a lesser extent video content.”⁴⁵
- g. “Facebook's second-quarter operating margin came in at 44%, down about 3 percentage points from a year ago, mainly due to the firm's lower gross margin as more investments are made in content creation and data security. In addition, as a percentage of revenue, Facebook's marketing and sales spending went up to levels

⁴² Facebook Inc (FB – Q2FY18), Loosing [SIC] its strength as a social media giant, CrispIdea Research (Jul. 31, 2018).

⁴³ Facebook (FB), Even the best hitters strike out sometimes, Wedbush Securities (Jul. 26, 2018).

⁴⁴ Facebook Inc, Argus Research (Jul. 27, 2018).

⁴⁵ Facebook, Q2 ushers in a much more sober outlook, Canaccord Genuity (Jul. 25, 2018).

not seen since the first quarter of 2016 as the firm continues to repair its image post data privacy issues and the Cambridge Analytica scandal.”⁴⁶

- h. “Getting Ahead of the Privacy Issue – We suspect concerns re LT trends/headlines are forcing significant changes to user privacy/data concerns. In 3Q, we expect that users globally may be offered options that go well beyond GDPR changes. Such changes are likely a key driver of the 4Q revenue guidance.”⁴⁷
- i. “FB is seeing some headwinds from data & privacy related issues. On the user front, FB MAUs in Europe declined 1M Q/Q & DAUs dropped 3M from 282M in 1Q18 to 279M in 2Q18 as DAU/MAU fell 60bps Q/Q. Europe also saw more significant revenue deceleration than other geos. While part of the revenue impact was due to FX, we believe FB likely felt data & privacy issues more in Europe, with some early impact from GDPR in terms of both users & monetization. For 2H18, FB also called out privacy as likely to drag on revenue growth. FB is giving users more choices around privacy & how their data is used, & we believe advertisers are also being more cautious around targeting consumers.”⁴⁸
- j. “We lower our EPS estimates for 2018 to \$7.29 from \$7.42 and 2019 to \$8.24 from \$8.63, given what we see as FB’s efforts to invest significantly to respond to the Cambridge Analytica revelations.”⁴⁹
- k. “The key drivers of revenue growth deceleration: i) FX headwinds, which will impact more so in 3Q18 than 4Q18; ii) Promoting engaging experiences, namely promoting FB Stories on Core FB and in turn reducing ad inventory avails; iii) Privacy via features that could reduce ad targeting capabilities (like clearing user history) and GDPR impact on users in Europe (as some users don't opt in for tracking usage).”⁵⁰
- l. “On this quarter's earnings print, however, that view proved overly optimistic, where Facebook spelled out a high-single-digit sequential revenue deceleration in the third and fourth quarters while offering a long-term margin guidance in the mid-thirties for the first time. The pressures cited were currency, the promotion of new experiences (e.g., Stories), and the effects of the continued efforts around security and privacy, both from the standpoint of GDPR implementation as well as new services and controls that offer more ways for users to opt out of ads. Additionally, on the cost side, the factors cited by magnitude were Security &

⁴⁶ Facebook reported mixed 2Q results and disappointing margin guidance; Lowering FVE to \$186, Morningstar Equity Research (Jul. 26, 2018).

⁴⁷ Facebook 2Q'18: Bombshell guidance; Structural shifts, Macquarie Research (Jul 26, 2018).

⁴⁸ Facebook, Major reset, stories & data/privacy drag on N-T revs, Heavy investments continue; Remain OW, PT to \$205, Dropping from AFL, J.P. Morgan (Jul. 26, 2018).

⁴⁹ Facebook, Inc., CFRA (Jul. 26, 2018).

⁵⁰ Facebook, 2Q18 Results: 2H18 ad rev decel and L-T margin forecast worse than expected, Cowen (Jul. 26, 2018).

Privacy efforts (now in the billions per annum), the investments in new business lines (e.g., AR/VR), the flow-through of its steady ramp in capex, and video.”⁵¹

- m. “Management expects modest revenue impact from MAU decline ("opt-outs") due to regulation & privacy concerns, mainly in Europe (Q2 saw a 3m DAU decline in Europe).”⁵²
- n. “New data privacy tools could limit targeting capabilities. This includes the potential impact from GDPR in addition to new tools Facebook has developed that give users more choice around the data that can be shared with advertisers for ad targeting. For example, at F8 2018, Facebook revealed a “Clear History” tool that allows users to erase their browsing behavior, sites visited, and click data, among others, on Facebook. This is among other privacy tools the company has recently provided to users.”⁵³
- o. “The deceleration per FB is due to a currency headwind, growth of Stories, which monetize at lower levels, and data privacy controls, including GDPR impacts.”⁵⁴
- p. “Why is the outlook calling for revenue deceleration? While bears may suspect core Facebook engagement challenges may be to blame, management's stated drivers are 1) currency shifting from a tailwind in 1H18 to a headwind in 2H, particularly in the 3Q; 2) the promotion of new products like Stories, which monetize at a lower rate than news feed; and 3) the company providing users more choices around data privacy, which may impact its ability to target ads.”⁵⁵
- q. “Management highlights three areas for its revenue outlook: (i) currency tailwind turning to modest headwind (ii) bigger effort to promote Stories, which has lower monetization than Newsfeed (iii) product focus on choice around user privacy, which could have an impact on monetization On the margin commentary, management later indicated this move to mid-30% range is expected to be a gradual move over more than two years. Spending to promote safety and security spending is measured in billions on annual basis with no direct revenue benefit.”⁵⁶

25. Media commentary echoed similar concerns following Facebook’s 2Q2018

revelations. For example:

⁵¹ Facebook, Inc., FB: Coming up against scale, Wells Fargo Securities (Jul. 25, 2018).

⁵² Facebook, Taking a break from being friends, UBS (Jul. 25, 2018).

⁵³ Facebook, Inc., Rare miss on ad revenue and margin commentary pressure shares, William Blair (Jul. 25, 2018).

⁵⁴ Facebook, Inc., Growth & expense reset but don’t overly react; Maintain buy but lower PT To \$206, Aegis Capital Corp (Jul. 26, 2018).

⁵⁵ Facebook Inc, Facing facts, Disappointing revenue and margin outlook provided unexpectedly, Evercore ISI (Jul. 26, 2018).

⁵⁶ Facebook, Inc., Post-call thoughts from MKM, MKM Partners (Jul. 26, 2018).

- a. “Facebook shares collapse as a result of Cambridge Analytica.”⁵⁷
- b. “Facebook Takes Historic Plunge as Scandals Finally Take a Toll.”⁵⁸
- c. “Facebook starts paying a price for scandals”⁵⁹
- d. “Until now . . . there was a sense that the vast majority of users didn’t fully understand Facebook’s business. But the ongoing scandals have caused many people to take another look.”⁶⁰
- e. “At the center of [Facebook’s] pessimistic outlook? The increasing impact of the profit versus privacy battle at the center of the Cambridge Analytica story and the growing inability of Facebook to control its platform and protect it from harmful misuse.”⁶¹
- f. “fallout from a confluence of factors in the Facebook data privacy scandal has come to bear in the last week of July 2018.”⁶²
- g. “Cambridge Analytica scandal [was] one of many reasons for [Facebook’s] stock plunge.”⁶³
- h. “The cost of years of privacy missteps finally caught up with Facebook this week. . . . Worries about the rising costs of privacy regulations and controversies, along with declining growth in users and revenue played a key role in a major Wall Street sell-off”⁶⁴
- i. “More than \$119bn (£90.8bn) has been wiped off Facebook’s market value, which includes a \$17bn hit to the fortune of its founder, Mark Zuckerberg, after the company told investors that user growth had slowed in the wake of the Cambridge Analytica scandal.”⁶⁵

⁵⁷ Julia Boorstin, Facebook shares collapse as a result of Cambridge Analytica election scandal, *CNBC* (Jul. 25, 2018), <https://tinyurl.com/yaaqqbw8>.

⁵⁸ Sarah Frier, Facebook takes historic plunge as scandals finally take a toll, *Bloomberg* (Jul. 25, 2018), <https://tinyurl.com/ycubn6mb>.

⁵⁹ Sheera Frankel, Facebook starts paying a price for scandals, *New York Times* (Jul. 25, 2018), <https://tinyurl.com/y9rug8ru>.

⁶⁰ Richard Hieva, Facebooks bad year just got worse, *CNet.com* (Jul. 26, 2018), <https://tinyurl.com/y7hpmxlv>.

⁶¹ Kalev Leetaru, Profit versus privacy: Facebook’s stock collapse and its empty ‘Privacy First’ policy, *Forbes* (Jul. 29, 2018), <https://tinyurl.com/yc9vopf7>.

⁶² James Sanders, Facebook data privacy: A cheat sheet, *Tech Republic* (Sep. 12, 2018), <https://tinyurl.com/yclp5a2w>.

⁶³ Jessica Guynn, Why Facebook had its worst day is complicated, *USA Today*, (Jul. 28, 2018).

⁶⁴ Craig Timberg and Elizabeth Dwoskin, How years of privacy controversies finally caught up with Facebook, *Washington Post* (Jul. 26, 2018), <https://tinyurl.com/y7kn8o9x>.

⁶⁵ Rupert Neate, Over \$119bn wiped off Facebook’s market cap after growth shock, *The Guardian* (Jul. 26, 2018), <https://tinyurl.com/yat6o6og>.

- j. “Facebook shares plummet over privacy scandal and slow growth in new users.”⁶⁶
- k. Multiple other outlets reported on Facebook’s consumer data privacy and control issues, user engagement with the service, and resulting poor financial performance and stock price decline.⁶⁷

26. In summary, investors, analysts, and the market gained a more complete understanding of the impact and consequences of Facebook’s prior data privacy weaknesses only after the Company’s earnings news on July 25, 2018. Contrary to the prior public assertions made by Facebook executives, the Company’s problems relating to user data control had an impact on user engagement with the platform, advertiser spending, Company expenses to address and remediate data privacy weaknesses, and ultimately led to a significant reduction in shareholder value.

V. Facebook’s Stock Price Declines Following the Corrective Disclosures Were Statistically and Economically Significant

27. I was asked to assess how the corrective disclosures in March 2018 and July 2018 impacted Facebook’s stock price. An event study is an established and well-accepted statistical method for measuring the effect of the disclosure of new information on the price of a company’s publicly-traded securities. New information may include, among other things, company press releases, SEC filings, earnings reports, news, and research analyst reports. In conducting an event study for Facebook’s stock prices, I have assumed that the market for the Company’s stock is efficient. During the course of my analysis, I have not seen any evidence to indicate otherwise.

⁶⁶ Tom Embury-Dennis, Facebook shares plummet over privacy scandal and slow growth in new users, *Independent* (Jul. 25, 2018), <https://tinyurl.com/ybm8uuk2>.

⁶⁷ E.g., On Jul. 25, 2018: *Investor Business Daily*, *Australian Broadcasting Corporation*, *The Verge*, *U.S. News & World Report*, and *the Guardian*; on Jul. 26, 2018: *Investor Business Daily*, *USA Today*, *Forbes*, *Yahoo! Finance*, *CRN*, and *Variety*.

28. A generally accepted method for performing an event study is to create a regression model over a selected time period to observe the typical relationship between the price of the relevant security and market and industry indices. Through this regression model, an economist can model the predicted daily return of the relevant security, based on market and industry returns. By subtracting the predicted return from the actual return, an economist can calculate the “abnormal” return in the company’s daily stock price movement, which represents the component of the daily stock price return that is not attributable to market-wide or industry-wide movements, but rather, is attributable to company-specific news. Finally, as part of an event study method, an economist tests whether the deviation from expected price movements (i.e., the abnormal return) is sufficiently large compared to the usual volatility in the Company stock price return such that simple random movement can be rejected as the cause.

29. Here, I performed an event study to evaluate whether Facebook’s common stock responded to information disclosed in March 2018 and on July 25, 2018, following the alleged corrective disclosures. To conduct the event study, I deployed the methodologies described above that are well-established in academic literature and routinely applied in the context of securities fraud litigation.

30. In an effort to isolate the impact of Company-specific news on Facebook’s stock price during the Class Period, I performed regression analyses to measure the relationship between Facebook’s stock price returns and: (1) changes in market-wide factors that would be expected to impact all stocks; and (2) changes in industry-wide factors that would be expected to impact stocks in Facebook’s industry. By modeling how Facebook’s stock price returns moved relative to an overall market index and an industry index, I could also measure its response to Company-specific news.

31. For each trading day analyzed, I constructed a regression model using data from the 120-day period ending February 2, 2017 (the “Estimation Window”), the day before the start of the Class Period. It is common practice to employ a 120-day Estimation Window.⁶⁸ To study the relationship between Facebook’s stock price returns and overall market factors, I used the S&P 500 (the “Market Index”), which includes 500 leading companies and captures approximately 80% coverage of available market capitalization. The Market Index is commonly used by economists as a representation of the overall market. To study the relationship between Facebook’s stock price returns and changes in industry-wide factors that would be expected to impact all stock in Facebook’s particular industry, I constructed an industry index (the “Industry Index”). To construct the Industry Index, I used companies that were identified by Capital IQ as comparable industry peers of Facebook and for which return data was available.⁶⁹

32. I established the relationship between the daily return of the Company stock, the daily return on the Market Index, and the daily return on the Industry Index over the Estimation Window.⁷⁰ The event study model revealed a positive relation between the Company’s daily returns and those of the overall stock market and industry. In other words, movements of the

⁶⁸ Mark L. Mitchell and Jeffrey M. Netter, *The Role of Financial Economics in Securities Fraud Cases: Applications at the Securities and Exchange Commission*, 49 THE BUSINESS LAWYER, at p. 568 (“The market model is estimated with regression analysis. The estimation period for this market model equation typically ranges from 100 to 300 trading days preceding the event under study.”); A. Craig MacKinlay, *Event Studies in Economics and Finance*, 35 JOURNAL OF ECONOMIC LITERATURE, at p. 15 (1997) (“Given the selection of a normal performance model, the estimation window needs to be defined. The most common choice, when feasible, is using the period prior to the event window for the estimation window. For example, in an event study using daily data and the market model, the market model parameters could be estimated over the 120 days prior to the event. Generally the event period itself is not included in the estimation period to prevent the event from influencing the normal performance model parameter estimates.”)

⁶⁹ I obtained daily stock prices, returns, and trading volume from the Center for Research in Security Prices (“CRSP”). The equal-weighted Industry Index is comprised of Alphabet Inc., Match Group Inc., and Twitter Inc.

⁷⁰ My use of this estimation model accounts for the relationship between the Company, market, and industry daily returns. This method has been accepted by academics in peer-reviewed literature. See A. Craig MacKinlay, *Event Studies in Economics and Finance*, 35 JOURNAL OF ECONOMIC LITERATURE, at p. 15 (1997) (“For example, in an event study using daily data and the market model, the market model parameters could be estimated over the 120 days prior to the event.”); see also Phillip A. Braun, Daniel B. Nelson and Alain M. Sunier, *Good News, Bad News, Volatility, and Betas*, 50 JOURNAL OF FINANCE, at p. 1597 (1995).

Market Index and Industry Index help explain movements in Facebook's stock price. This allowed me to predict the expected daily return of the Company on a date, once I controlled for that day's market and industry returns. I then subtracted the predicted return from the actual return to get the "abnormal" return, which represented the component of the return that is not attributable to market-wide or industry-wide movements. If the new information revealed on the alleged corrective disclosure date had a statistically significant abnormal return I infer that the stock price movement was at least partially caused by the newly-available public information. I can then conclude that the alleged corrective disclosures provided new information in the market that was important to investors, causing them to change their valuation of the Company's stock.

33. Finally, I calculated the statistical significance of the abnormal return by comparing it to the usual volatility in the Company stock price return. To do so, I calculated the t-statistic, which is the test that economists use to determine whether randomness can be rejected as the explanation for an abnormal price movement. The t-statistic measures the number of standard deviations between the actual observation and the predicted movement. Probability theory suggests that under the standard assumption that abnormal returns will be normally distributed with a mean of zero in the absence of new value-relevant company-specific news, based purely on randomness, using a 95% confidence level and a sufficiently large sample size, the abnormal return should have a t-statistic greater than 1.96 (or less than -1.96) only 5% of the time.⁷¹ In other words, there is a 95% chance that, barring some non-random explanation, the actual observed return will fall within 1.96 standard deviations of the predicted return.

⁷¹ David I. Tabak and Frederick C. Dunbar, "Materiality and Magnitude: Event Studies in the Courtroom," LITIGATION SERVICES HANDBOOK, THE ROLE OF THE FINANCIAL EXPERT, Ch. 19, (3rd ed. 2001). The financial economics literature often identifies the 90% threshold as a relevant boundary for significance as well.

34. **Exhibit 1** reports Facebook's stock price and trading volume throughout the Class period. **Exhibit 2** reports my event study results for Facebook stock in March 2018 and July 25-26, 2018, when Plaintiffs allege that the relevant truth concealed by Defendants' misrepresentations and omissions was revealed to the market. The abnormal return on March 19, 2018, was -5.36% and was statistically significant at the 99% level; on March 20, 2018 it was -2.50% with 95% significance; on March 27, 2018 it was -2.89% with 95% significance; and on July 26, 2018 it was -18.56% with 99% significance. As these abnormal price movements are statistically significant at or above the 90% confidence level, I can reject randomness as the cause of the abnormal movements in stock price and can infer that Company-specific information released around these dates caused the observed price declines.

35. Not only were these stock price declines statistically significant, but they were also economically significant for Facebook shareholders. The abnormal dollar price decline in Facebook stock on March 19, 2018 was -\$9.92; on March 20, 2018 it was -\$4.31; on March 27, 2018 it was -\$4.62; and on July 26, 2018 it was -\$40.38. These price declines equate to common equity market capitalization declines of approximately \$23 Billion, \$10 Billion, \$11 Billion, and \$97 Billion, respectively.⁷² Thus, the stock price declines represented an economically significant reduction in shareholder value following the corrective disclosures.

VI. Conclusion

36. I conclude that the alleged corrective disclosures from March 2018 through July 2018 significantly altered the information environment available to investors in Facebook securities. The market did not appear to understand the full breadth and impact of Facebook's data privacy weaknesses, lack of control over user data, and Cambridge Analytica's continued

⁷² These calculations are approximate and are based on 2.395 Billion shares outstanding in March 2018 and 2.412 Billion shares outstanding on July 26, 2018, as reported by the Center for Research in Security Prices.

misuse of user data until after Facebook's July 25, 2018 disclosure. The disclosures discussed above revealed new information to investors concerning Cambridge Analytica's continued misuse of user data, lack of user control over data provided to Facebook, and general data privacy and control weaknesses at Facebook. The various revelations and disclosures would be expected to have an impact on the investing decisions of a reasonable investor.

37. Further, I conclude that the price declines in Facebook's common stock on March 19, 2018, March 20, 2018, March 27, 2018 and July 26, 2018 were statistically significant. Moreover, they were economically sizeable and represented many billions of dollars of shareholder losses. From an economic perspective, these declines were proximately caused by the revelation or partial revelation of the truth concerning Defendants' alleged misrepresentations and/or omissions.

I declare under the penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed on October 15, 2020



Matthew D. Cain

Appendix A. Curriculum Vitae of Matthew D. Cain

Matthew D. Cain, Ph.D.

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Education

Ph.D., Finance, August 2007

Purdue University, West Lafayette, IN

B.S., Finance, May 2001

Grove City College, Grove City, PA

Professional and Academic Experience

Senior Fellow, Berkeley Center for Law and Business; *Senior Visiting Scholar*, Berkeley Law School, University of California, 2019-Present

Visiting Research Fellow, Harvard Law School Program on Corporate Governance, 2018-2019

Advisor to Commissioner Robert J. Jackson, Jr., U.S. Securities and Exchange Commission, 2018

Economic Fellow / Financial Economist, Office of Litigation Economics, Division of Economic and Risk Analysis, U.S. Securities and Exchange Commission, 2014-2018

Assistant Professor of Finance, Mendoza College of Business, University of Notre Dame, Notre Dame, IN, 2008-2014

Visiting Faculty, Krannert School of Management, Purdue University, West Lafayette, IN, 2007-2008

Analyst, Debt Capital Markets, National City Bank, Cleveland, OH, 2001-2003

Publications

Does *Revlon* Matter? An Empirical and Theoretical Study (with Sean J. Griffith, Robert J. Jackson, Jr., and Steven Davidoff Solomon), *California Law Review*, forthcoming.

Intermediation in Private Equity: The Role of Placement Agents (with Stephen B. McKeon and Steven Davidoff Solomon), *Journal of Financial and Quantitative Analysis* 55, 1095-1116 (2020).

Mootness Fees (with Jill E. Fisch, Steven Davidoff Solomon, and Randall S. Thomas), *Vanderbilt Law Review* 72, 1777-1816 (2019).

The Myth of Morrison: Securities Fraud Litigation Against Foreign Issuers (with Robert Bartlett, Jill E. Fisch, and Steven Davidoff Solomon), *The Business Lawyer* 74, 967-1013 (2019).

The Shifting Tides of Merger Litigation (with Jill E. Fisch, Steven Davidoff Solomon, and Randall S. Thomas), *Vanderbilt Law Review* 71, 603-640 (2018).

Do Takeover Laws Matter? Evidence from Five Decades of Hostile Takeovers (with Stephen B. McKeon and Steven Davidoff Solomon), *Journal of Financial Economics* 124, 464-485 (2017).

CEO Personal Risk-Taking and Corporate Policies (with Stephen B. McKeon), *Journal of Financial and Quantitative Analysis* 51, 139-164 (2016).

How Corporate Governance Is Made: The Case of the Golden Leash (with Jill E. Fisch, Sean J. Griffith, and Steven Davidoff Solomon), *University of Pennsylvania Law Review* 164, 649-702 (2016).

A Great Game: The Dynamics of State Competition and Litigation (with Steven Davidoff Solomon), *Iowa Law Review* 100, 465-500 (2015).

Broken Promises: Private Equity Bidding Behavior and the Value of Reputation (with Antonio J. Macias and Steven Davidoff Solomon), *Journal of Corporation Law* 40, 565-598 (2015).

Information Production by Investment Banks: Evidence from Fairness Opinions (with David J. Denis), *Journal of Law and Economics* 56, 245-280 (2013).

Delaware's Competitive Reach (with Steven Davidoff Solomon), *Journal of Empirical Legal Studies* 9, 92-128 (2012).

Form Over Substance? Management Buy-outs and the Value of Corporate Process (with Steven Davidoff Solomon), *Delaware Journal of Corporate Law* 36, 1-54 (2011).

Earnouts: A Study of Financial Contracting in Acquisition Agreements (with David J. Denis and Diane K. Denis), *Journal of Accounting and Economics* 51, 151-170 (2011).

Presentations

Arizona State University College of Law, 2020

U.C. Berkeley School of Law, 2019; 2018

Vanderbilt University Law School, 2019

Berkeley Center for Law and Business, 2018

Cornerstone Research, 2018

Cornell University, 2016; 2015

Oxera, London, 2016

Institute for Law and Economics, University of Pennsylvania, 2015

U.C. Berkeley M&A Roundtable, New York, 2015

American Bar Association, Business Law, Private Equity M&A Subcommittee meeting, 2015

Virginia Commonwealth University, 2015

American Finance Association, annual meeting, 2015

Argentum Centre for Private Equity Symposium, Bergen, Norway, 2014

U.S. Securities and Exchange Commission, 2014

American Law and Economics Association, University of Chicago, 2014

The Brattle Group, 2013

U.S. Securities and Exchange Commission, 2013

Institute for Law and Economics, University of Pennsylvania, 2013

All Indiana Conference, 2013; 2010; 2009

American Law and Economics Association, Stanford Law School, 2012
George Washington University Law School, 2012
American Finance Association, annual meeting, 2012
Ohio State, 2011
Ohio University, 2011
Conference on Empirical Legal Studies, Yale Law School, 2010
Argentum Conference and Symposium on "Private Equity: The Road Ahead," Stockholm, Sweden, 2010
Purdue Alumni Conference, 2010
American Finance Association, annual meeting, 2008
Indiana University, 2008
Penn State, 2008
University of Arizona, 2008
University of Colorado, 2008
University of Florida, 2008
University of North Carolina at Chapel Hill, 2008
University of Notre Dame, 2008
University of Oregon, 2008
University of Pittsburgh, 2008
Virginia Tech, 2008
Financial Management Association, annual meeting, 2007
University of Georgia, 2007
University of Kentucky, 2007
Western Finance Association, annual meeting, 2006

Journal Referee: *Review of Financial Studies, Journal of Financial and Quantitative Analysis, Journal of Corporate Finance, European Financial Management, Journal of Empirical Legal Studies, Financial Management, North American Journal of Economics and Finance, International Review of Law & Economics, Managerial and Decision Economics, Annals of Finance, Journal of Economics and Business*

Teaching Experience

UC Berkeley School of Law

LAW 251.52: Economics of Corporate and Securities Litigation, Fall: 2020

University of Notre Dame, Mendoza College of Business

FIN 70400: Corporate Restructuring, Mergers & Acquisitions (MBA Elective), Fall: 2008-2013

FIN 40410: Mergers and Acquisitions, Fall: 2008-2013

Purdue University, Krannert School of Management

MGMT 412: Financial Markets and Institutions, Spring: 2006 & 2008

MGMT 610: Financial Management I (MBA Core), Fall: 2007

Expert Witness Experience

- *In re Qualcomm/Broadcom Merger Securities Litigation*, Case No. 3:18-cv-01208-CAB-AHG (S.D. Ca.). Declaration May 2020.
- *In re Banc of California Securities Litigation*, Case No. 8:17-cv-00118-AG-DFM (C.D. Ca.). Report April 2019.
- *Tharp v. Acacia Communications, Inc.*, Case No. 17-cv-11504 (D. Mass.). Declaration November 2018.
- *Securities and Exchange Commission v. Avent*, Case No. 1:16-cv-02459-WMR (N.D. Ga.). Report March 2017. Deposition May 2017. Jury Trial August 2019.
- *In the Matter of Lawrence I. Balter d/b/a Oracle Investment Research*, File No. 3-17614 (SEC Admin. Proc.). Report March 2017.
- *Securities and Exchange Commission v. Huang*, Case No. 2:15-cv-00269-MAK (E.D. Pa.). Report September 2015. Declaration October 2015. Jury Trial January 2016.
- *Securities and Exchange Commission v. Alyasin*, Case No. 4:15-cv-00566 (S.D. Tex.). Declaration March 2015.

Exhibit 1

Facebook Common Stock Price and Volume

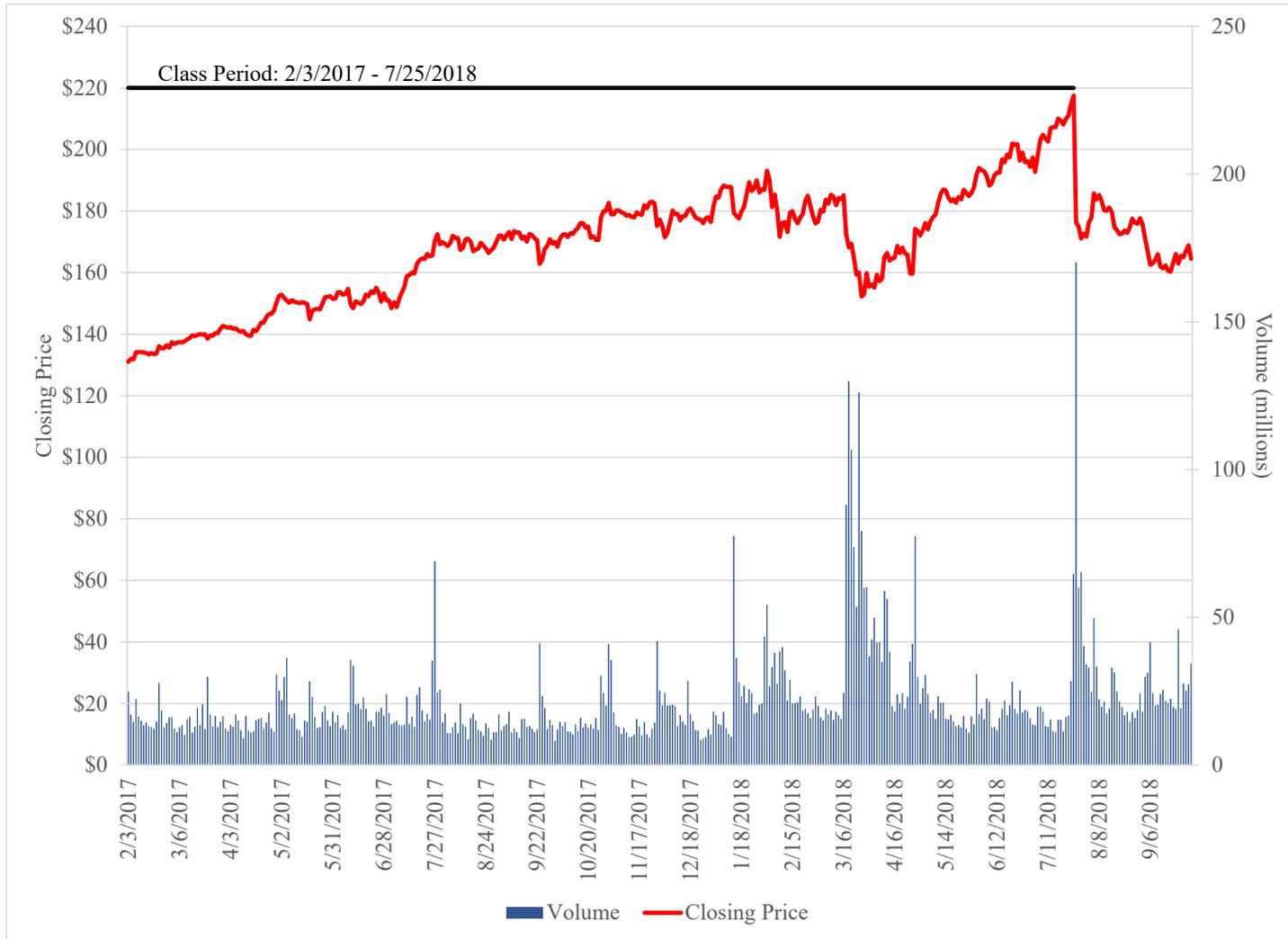


Exhibit 2

**Event Study Statistics for Facebook Stock:
March 2018 and July 25-26, 2018**

Date	Closing Price	Volume (Millions)	Raw Return	Abn. Return	Abn. Dollar Change	t-Stat	p-Value	Sig Level
3/19/2018	\$172.56	88.1	-6.77%	-5.36%	-\$9.92	-4.42	(0.00)	***
3/20/2018	\$168.15	129.9	-2.56%	-2.50%	-\$4.31	-2.06	(0.04)	**
3/27/2018	\$152.22	79.2	-4.90%	-2.89%	-\$4.62	-2.33	(0.02)	**
7/26/2018	\$176.26	170.2	-18.96%	-18.56%	-\$40.38	-15.42	(0.00)	***

Sources: Complaint and the Center for Research in Security Prices (CRSP).

Note:

*** Denotes statistical significance at the 99% confidence level or greater; ** denotes statistical significance at the 95% confidence level or greater; * denotes statistical significance at the 90% level or greater.

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CERTIFICATE OF SERVICE

I hereby certify under penalty of perjury that on October 16, 2020, I authorized the electronic filing of the foregoing with the Clerk of the Court using the CM/ECF system which will send notification of such filing to the e-mail addresses on the attached Electronic Mail Notice List, and I hereby certify that I caused the mailing of the foregoing via the United States Postal Service to the non-CM/ECF participants indicated on the attached Manual Notice List.

s/ Jason C. Davis
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- (No manual recipients)