



Company  
FACEBOOK, INC.

Ticker Symbol  
FB

CUSIP  
30303M102

Guideline  
Standard

Meeting Date  
05/27/20

Record Date  
04/03/20

Date Published  
05/14/20

*(delivered to most major institutional investors and parties interested in proxy matters)*

*Our recommendations are received by most major investors.*

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Meeting Information	
Meeting Type	Annual
Meeting Date	05/27/20
Record Date	04/03/20

### Items & Recommendations

We recommend that clients holding shares of FACEBOOK, INC. vote:

Item	Egan-Jones Recommendation	Management Recommendation
1 – Election of Directors	FOR, WITH EXCEPTION OF Marc L. Andreessen, Peter A. Thiel, Mark Zuckerberg	FOR ALL
2 – Ratification of Appointment of Independent Registered Public Accountants	AGAINST	FOR
3 – Approval of the Director Compensation Policy	FOR	FOR
4 – Shareholder Proposal Regarding Change in Shareholder Voting	FOR	AGAINST
5 – Shareholder Proposal Regarding an Independent Chair	FOR	AGAINST
6 – Shareholder Proposal Regarding Majority Voting for Directors	FOR	AGAINST
7 – Shareholder Proposal Regarding Political Advertising	FOR	AGAINST
8 – Shareholder Proposal Regarding Human/Civil Rights Expert on Board	FOR	AGAINST
9 – Shareholder Proposal Regarding Report on Civil and Human Rights Risks	FOR	AGAINST
10 – Shareholder Proposal Regarding Child Exploitation	FOR	AGAINST
11 – Shareholder Proposal Regarding Median Gender Pay-Gap	FOR	AGAINST

Egan-Jones' review centered on the Proposals in the context of maximizing shareholder value, based on publicly available information.

**Governance Rating Score Summary**

The Egan-Jones Governance Rating is based upon data sourced from FactSet Research Systems Inc., the company's public filings, reputable news sites, as well as other regulatory disclosures such as those found at the SEC and FASB

Ticker **FB**  
 Company name **Facebook, Inc. Class A**

**Board Rating**

Item	TRUE/FALSE
CEO and Chairman Separate	FALSE
Annual Director Elections	TRUE
All Classes of Stock Have Equal Voting Rights	FALSE
Compensation Committee with All Independents	FALSE
Audit Committee with All Independents	FALSE
Nominating Committee with All Independents	FALSE
Non-binding Compensation Vote on Agenda	FALSE
Majority Independent Directors on Board	FALSE
Over-boarded CEO Director	FALSE
Over-boarded Board Chair	FALSE
Over-boarded Non-CEO Director	FALSE
Major cyber security breach	TRUE*
Failure to implement sufficient carbon risk plan	FALSE
Other financial or operational risk control failure	FALSE
Other serious reputational risk failure by the Board	TRUE**
Version	VER 2.10 12/15/2017
Sub Total	-20.00
Performance Adjustment	1.62
Total	-18.38
<b>Final Board Score</b>	<b>Needs Attention</b>

**Compensation Rating**

CEO Total Comp(\$)	23,415,973
CEO Salary (\$)	1
TSR (%)	8.24
Market Capitalization (\$M)	428,411.18
Wealth Creation (\$M)	35303.55
Wealth Creation/CEOPAY	1507.67
Raw Score (pre adjustments)	Superior
<b>Final Score</b>	<b>Superior</b>
Rating Model Version	VER 3.10 12/15/2017
High CEO Total Compensation	Negative Adjustment
CEO Salary Under \$1 Million Limit	Positive Adjustment
Other Adjustments:	No Adjustment

**Audit Rating**

Audit Fees	13,270,000
Total Fees	22,335,000
Non-Audit Fees exceed 50%	FALSE
Auditor has served for seven or more years	TRUE
Raw Score	Needs Attention
Version	VER 1.11 12/15/2017
<b>Final Score</b>	<b>Needs Attention</b>

**Governance Rating**

**Overall Score** **Needs Attention**

**Cyber Security Risk Rating**

The Egan-Jones Cyber Risk Ratings helps stake holders assess the security posture (health) of covered entities. EJPS analysts use the SecuritiesScorecard platform to ascertain the company's Score which is incorporated into the EJPS Proxy Research Report. The methodology utilized for determining the Score can be found at [http://ejproxy.com/media/documents/Egan-Jones\\_Proxy\\_Services\\_Cyber\\_Risk\\_Rating.pdf](http://ejproxy.com/media/documents/Egan-Jones_Proxy_Services_Cyber_Risk_Rating.pdf). For additional questions or comments please contact [research@ejproxy.com](mailto:research@ejproxy.com) or +1-844-495-5244 x1102.

Company Name	FACEBOOK INC.
Domain	facebook.com
SSC Letter Grade	D
SSC Industry	entertainment
Application Security	C
Cubit Score	A
DNS Health	B
Endpoint Security	F
Hacker Chatter	A
IP Reputation	F
Network Security	C

Information Leak A  
Patching Cadence A  
Social Engineering A

Minimum Factor Grade F

EJP Qualitative Adjustment None  
**Final Score Needs Attention**  
Cyber Security Scoring Engine Version 2.0.1 - EJP

\*In 2019, more than 540 million records about Facebook users were publicly exposed on Amazon's cloud computing service, according to a cybersecurity research firm. (<https://www.cbsnews.com/news/millions-facebook-user-records-exposed-amazon-cloud-server/>)

\*\*For the past couple of years, Facebook has been muddled with controversies ranging from data breaches to human rights, hate speech, harassment and possible illegal political spending.

It is reported by The Washington Post that Facebook participates in a soon to be launched political advocacy group called American Edge, whose goal is to fund ads and studies to persuade lawmakers to be lenient to the tech industry. As a result of its alleged attempt to escape government regulation, lawmakers, including Sen. Elizabeth Warren, are calling for antitrust action against Facebook.

Moreover, Facebook has remained silent on its initiatives in political advertising. We believe that the Company, being the most popular social media platform in the internet, should lay out its rules and policies regarding political advertising. Being a vehicle of the rising cases of fake news and hate speech, the Board should mitigate the reputational risks of political advertising in social media.

**Item 1**  
Election of Directors

Director Name	Nominee	Key Committee Membership	Attendance (<75%)	Position CEO/Chair	Director Since	Diverse director	Classification	Footnotes	EJP recommendation
	1	2	3	4	5	6	7	8	9
MARC L ANDREESSEN	Yes	A;C;N	No		2008		Affiliated Outside Director	F6	WITHHOLD
PETER A THIEL	Yes	C;N	No		2005		Affiliated Outside Director	F6	WITHHOLD
MARK ZUCKERBERG	Yes		No	CHIEF EXECUTIVE OFFICER,EXECUTIVE CHAIRMAN	2004		Inside Director	F21, F22	WITHHOLD
SHERYL K SANDBERG	Yes		No	CHIEF OPERATING OFFICER	2012	Yes	Inside Director		FOR
PEGGY ALFORD	Yes	A	No		2019	Yes	Independent Outside Director		FOR
ANDREW W. HOUSTON	Yes	C;N	No		2020		Independent Outside Director		FOR
NANCY KILLEFER	Yes		No		2020	Yes	Independent Outside Director		FOR
TRACEY T. TRAVIS	Yes	A	No		2020	Yes	Independent Outside Director		FOR
ROBERT M. KIMMITT	Yes		No		2020		Independent Outside Director		FOR

**F6 Affiliation - Over-tenured director - Member of a Key Board committee**

According to Egan-Jones' Proxy Guidelines a director whose tenure on the Board is 10 years or more is considered affiliated, except for diverse nominees. We believe that key Board committees namely Audit, Compensation and Nominating committees should be comprised solely of Independent outside directors for sound corporate governance practice.

**F21 Combined CEO and Board Chair Positions and the Company Earns a Board Score of Some Concerns or Needs Attention**

Egan-Jones' Proxy Guidelines state that there is an inherent potential conflict, in having the CEO or former CEO serve as the Chairman of the Board. Consequently, we prefer that companies focus on the following areas to improve its corporate governance practices: separate the roles of the Chairman and CEO, hold annual director elections, have one class of voting stock only, have key board committees consisting of independent directors and majority of independent directors on board and include non-binding compensation vote on agenda to further ensure board independence and accountability.

**F22 Chairman of the Board and the Company Earns a Cyber Security Risk Rating of Needs Attention**

Egan-Jones' Proxy Guidelines state that the Chairman of the Board should be held accountable in cases when the Company obtains the score of Needs Attention on the Cyber Security Risk Rating. We believe that cyber security should be critical for all organizations given the rise of the cyber threats and data breaches in the corporate scene, which could affect any organization's reputation and lead to declined investor confidence. As such, Egan-Jones believes that in order to avoid risks of data breaches any cybersecurity weaknesses should be addressed aggressively in the board room, combined with the proper approach to cyber risk management, implementation of systems and controls against cybersecurity incidents and the leadership of the Chairman of the Board.

**Item 2**  
Ratification of Appointment of Independent Registered Public Accountants

**Recommendation:**

At Egan-Jones Proxy Services we review relevant factors, both qualitative and quantitative in nature, before issuing a recommendation regarding the ratification of the appointment of independent auditors. We believe that auditor rotation every seven years, a ratio of non-audit fees and total fees not exceeding 50%, a lack of significant and material disciplinary actions taken against the Company's Auditor and any financial interest of the auditor in or association with the Company are the minimum criteria that should be taken into consideration in ensuring the auditor's independence.

The sum total of our evaluation can be found in the Auditor Rating we give this auditor. Generally and absent other negative factors, we suggest a score **Neutral** or higher. This audit firm has earned a grade of **Needs Attention** and thus, has failed to pass our model.

After taking into account both the quantitative and qualitative measures outlined below, we believe that shareholders should not support the ratification of the auditors. **Therefore, we recommend a vote AGAINST this Proposal.**

\*See scoring details on top of the report.

**Background:**

While ratification of auditors is one of the most common proposals submitted to shareholders it should not be overlooked. After employing the most qualified directors and CEO, to manage and grow the company, having equally experienced auditors should be next in importance. Reliable auditors are critical to ensuring shareholders receive accurate and timely reports of the Company's financial performance.

Exhibit 1 - Audit Fees

	Current Fiscal Year	Prior Fiscal Year
Audit Fees	\$ 13,270,000	\$ 10,857,000
Audit Related Fees	\$ 575,000	\$ 805,000
Non Audit and Tax Fees	\$ 8,490,000	\$ 7,149,000
Total Fees	\$ 22,335,000	\$ 18,811,000

Exhibit 2 - Audit Fee Ratios

	Relevant Ratios	Note
Total Fee Increase/Decrease	18.7%	
Non-Audit Related Fees divided by Total Fees (Current FY):	38.0%	Should not be higher than 50%

Board Auditor Choice: **Ernst & Young, LLP**

Ernst & Young, LLP is a PCAOB (Public Company Accounting Oversight Board) registered auditor. Public records show that there have been disciplinary actions taken against this firm and its employees; however, we do not believe this to be unusual for such a large company with numerous employees, in most of these cases.

Securities Exchange Act of 1934 Release No. 78872/ September 19, 2016	Ernst & Young LLP penalty	Firm's audit partner penalty
Auditor independence failures due to close personal relationships between the firm's audit partner Ernst & Young LLP, Gregory S. Bednar, CPA and client personnel from January 2012 to March 2015.	\$4.975 million	\$45,000 Gregory S. Bednar, CPA was suspended from appearing and practicing before the SEC as an accountant, which includes not participating in the financial reporting or audits of public companies. The SEC's order permits Bednar to apply for reinstatement after three years.
Securities Exchange Act of 1934 Release No. 78873/ September 19, 2016		
Pamela J. Hartford, CPA caused auditor independence rule violations at Ernst & Young from March 2012 to June 2014, maintaining a romantic relationship with client financial executive. Ernst & Young partner named Michael T. Kamienski, CPA, who supervised Hartford on the audit, became aware of facts suggesting the improper relationship yet failed to perform a reasonable inquiry or raise concerns internally to Ernst & Young's U.S. independence group.	\$4.366 million	\$25,000 Pamela J. Hartford, CPA and Michael T. Kamienski, CPA were suspended from appearing and practicing before the SEC as accountants, which includes not participating in the financial reporting or audits of public companies. The SEC's order permits Hartford and Kamienski to apply for reinstatement after three years.
Securities Exchange Act of 1934 Release No. 79109/ October 18, 2016		
Violations of the federal securities laws and improper professional conduct by Ernst & Young LLP, Craig R. Fronckiewicz, CPA, and Sarah E. Adams, CPA while serving as the external auditor, coordinating (i.e., signing) partner, and tax partner, respectively, for Weatherford International plc f/k/a Weatherford International Ltd.	\$ 11.8 million	Craig R. Fronckiewicz, CPA, and Sarah E. Adams, CPA were suspended from appearing and practicing before the SEC as accountants, which includes not participating in the financial reporting or audits of public companies. The SEC's order permits Fronckiewicz to apply for reinstatement after two years and Adams can apply after one year.
PCAOB Release No. 105-2012-001/February 8, 2012		
Violations of PCAOB rules and auditing standards related to E&Y's audits of the December 31, 2005, 2006, and 2007 (the "relevant time period") financial statements of Medicis Pharmaceutical Corporation and subsidiaries (collectively, "Medicis" or "the Company") and a consultation concerning Medicis's accounting for product returns (the "Product Returns Consultation") stemming from Ernst & Young LLP, Jeffrey S. Anderson, CPA, Ronald Butler, Jr., CPA, Thomas A. Christie, CPA, and Robert H. Thibault, CPA Audit Quality Review of the December 31, 2005 Medicis audit in 2006 (the "2006 AQR").	\$ 2 million	\$ 100,000 Jeffrey S. Anderson, CPA and Robert H. Thibault, CPA were barred from being associated with a registered public accounting firm and Ronald Butler, Jr., CPA, and Thomas A. Christie, CPA were censured.

Item 3

Approval of the Director Compensation Policy

Recommendation:

We believe that approval of the director compensation policy will help the Company to attract, retain and motivate its non-employee directors. **We recommend a vote FOR this Proposal.**

Background:

The shareholders are being asked to approve the director compensation policy.

As part of its annual review of the non-employee director compensation arrangements, the compensation, nominating & governance committee requested that its independent compensation consultant, Compensia, Inc., a national compensation consulting firm, advise the committee regarding the amount and type of compensation to be paid to the non-employee directors in light of the workload of, and the other challenges referenced above for, the members of the board of directors, including a review of comparative data. In consultation with Compensia, the compensation, nominating & governance committee conducted a review and assessment of compensation paid to non-employee directors pursuant to the existing non-employee director compensation practices and recommended to the board of directors that certain changes be made, which are reflected in the proposed Director Compensation Policy.

Compensia compared each of the existing non-employee director compensation practices and the proposed Director Compensation Policy against the current compensation practices of the same group of peer companies that the compensation, nominating & governance committee considers when making decisions with respect to the compensation of the executive officers (the Peer Group). In preparing its analysis, Compensia assumed that there were eight independent, non-employee directors on the board of directors, which size places Facebook in the 25th percentile of the companies in the Peer Group. Following the Annual Meeting, there will be seven independent, non-employee directors on the board of directors. The table below shows the results of Compensia's analysis:

	2019 Facebook Director Compensation (\$)	2019 Director Compensation Percentile Rank (%)	2020 Director Compensation Proposal (\$) <sup>(1)</sup>	2020 Director Compensation Proposal Percentile Rank (%)
Average Cash per Director	70,000	17	133,000	52
Average Equity per Director	300,000	85	356,000 <sup>(2)</sup>	90 <sup>(2)</sup>
Average Total Compensation per Director	370,000	68	490,000	95
Total Cost of Governance	2,960,000	50	3,916,000	77

(1) In calculating these amounts, Compensia relied on the following assumptions: (i) excess meeting fees were calculated assuming the board of directors and each committee thereof meet eight times in a calendar year, with all members attending; (ii) total cost of governance assumed eight independent, non-employee directors on the board of directors; and (iii) all amounts assumed that a Lead Independent Director was appointed, that the audit & risk oversight committee was comprised of four members, including a chair, and that the privacy committee was comprised of all independent directors, including a chair.

(2) Does not take into account initial equity grants to new non-employee directors.

Compensia also reviewed the proposed Director Compensation Policy against the current compensation practices for other companies in the S&P 500. Based on its review of the peer group and other market data, Compensia determined that the Director Compensation Policy was reasonable and justifiable based on the program objectives, relative projected scale of workload and risk, and relevant market and peer data.

The board of directors then reviewed the recommendation of the compensation, nominating & governance committee and the Director Compensation Policy and resolved that the policy should be adopted

for compensation to the non-employee directors starting in 2020, subject to the approval of the stockholders.

#### **Background Regarding Director Compensation Policy**

In 2019, under the current annual compensation arrangements for non-employee directors, each non-employee director received an annual cash retainer of \$50,000 and an annual equity retainer of \$300,000 in the form of restricted stock units (RSUs) that vest fully on the earlier of (i) May 15 of the following year or (ii) the date of the annual meeting of stockholders of the following year if the director does not stand for re-election or is not re-elected at such annual meeting, so long as the recipient is a director on such date. In addition to the annual cash retainer, the Lead Independent Director and the chair of the audit & risk oversight committee each received an annual cash retainer of \$50,000 and the other members of the audit & risk oversight committee each received an annual retainer of \$20,000. No additional fees were earned for service on the compensation, nominating & governance committee. Under the existing arrangements, new non-employee directors who join the board of directors between the annual meetings of stockholders are eligible to receive a grant of RSUs at the time of their appointment with a value equal to the value of the annual grant of RSUs to the non-employee directors, prorated for service from the date of their appointment through the first following occurrence of May 15. Similarly, annual cash retainers for new non-employee directors are prorated during a director's first year of service.

As described above, the compensation, nominating & governance committee reevaluated the compensation of the non-employee directors as part of its annual review of the non-employee director compensation arrangements. The compensation, nominating & governance committee met four times over a period of three months to evaluate different non-employee director compensation proposals and to consider the analysis and advice of Compensia and outside legal counsel. In February 2020, following a review of an analysis of non-employee director compensation prepared by Compensia and a recommendation from the compensation, nominating & governance committee, the board of directors approved proposed changes to the non-employee director compensation arrangements, as reflected in the Director Compensation Policy, which you are being asked to approve. Each of the items set forth in the Director Compensation Policy and described below is subject to stockholder approval, except for the increase in the annual cash retainer for service as the Lead Independent Director, which was effective immediately upon approval in order to assist in the recruitment of a highly qualified Lead Independent Director.

A key premise of the compensation, nominating & governance committee's recommendation and approval process was that any increases in non-employee director compensation would be inapplicable to each of the then-serving members of the compensation, nominating & governance committee (Messrs. Andreessen and Thiel), who have irrevocably waived any increases in cash and equity compensation. Even if the Director Compensation Policy is approved by the stockholders, Messrs. Andreessen and Thiel will continue to receive the compensation that each received in 2019 under the current annual compensation arrangements for non-employee directors. No employee directors receive any additional compensation for serving on the board of directors and, as is the case under the current annual compensation arrangements for non-employee directors, no additional fees are earned under the Director Compensation Policy for service on the compensation, nominating & governance committee. Further, each of the non-employee directors who may benefit from the changes set forth in the Director Compensation Policy abstained from voting on the approvals of such compensation or were not present at the meeting where the approvals were voted on.

#### *Eligibility*

Only the non-employee directors are eligible to receive compensation under the Director Compensation Policy. As of April 10, 2020, there were seven non-employee directors eligible to receive compensation under the Director Compensation Policy for their service in 2020, including five director nominees (Ms. Alford, Killefer, and Travis, Mr. Houston, and Ambassador Kimmitt) and two directors not standing for re-election (Messrs. Chenault and Zients). As noted above, the increases in compensation under the Director Compensation Policy are inapplicable to Messrs. Andreessen and Thiel who have irrevocably waived any increase in compensation they would have otherwise received under the Director Compensation Policy. The approval of the Director Compensation Policy will not affect the compensation of the two employee directors, who are not eligible to receive compensation under the Director Compensation Policy or to receive compensation for their service as directors more generally.

#### *Cash Compensation*

With respect to the cash component, the Director Compensation Policy provides for: (i) increasing the annual cash retainer for service as the Lead Independent Director from \$50,000 to \$150,000, (ii) adopting a \$20,000 annual cash retainer for service as a member of the to-be-formed privacy committee, other than for the chair of the committee, (iii) adopting a \$50,000 annual cash retainer for service as the chair of the to-be-formed privacy committee, and (iv) adopting a \$4,000 excess meeting fee for attendance at any meeting of the board of directors or any committee thereof in excess of four meetings per year for each respective group. No changes were made to the annual cash retainer paid to non-employee directors for service on the board of directors or to the retainers paid to the chair and members of the audit & risk oversight committee. As is the case under the current annual compensation arrangements for non-employee directors, no additional fees are earned under the Director Compensation Policy for service on the compensation, nominating & governance committee.

#### *Equity Compensation*

With respect to the equity component, the Director Compensation Policy (i) increases the annual equity retainer, beginning with the annual equity grant to be made following this Annual Meeting, for service as a member of the board of directors from \$300,000 to \$375,000, to be granted in RSUs with the same vesting schedule as the 2019 annual equity grants described above, and (ii) adopts an additional one-time initial \$1,000,000 equity grant for non-employee directors who join the board of directors on or after January 1, 2020 (including non-employee directors who were appointed prior to the date of this Annual Meeting), which vests in 16 equal quarterly installments over a period of approximately four years. This initial equity grant for new non-employee directors aligns the practices with a leading technology company in the peer group and is designed to ensure the competitive position in recruiting and retaining world-class individuals to serve on the board of directors.

The number of RSUs underlying any award granted pursuant to the Director Compensation Policy will be determined pursuant to the Equity Award Policy, which generally provides for the approved cash value of the RSU grant (initial equity value) to be divided by the average daily closing stock price of the Class A common stock in the month immediately prior to the individual becoming a director or, with respect to the annual non-employee director RSU awards, in the month of May. The RSU grants to the non-employee directors under the Director Compensation Policy are made pursuant to the 2012 Equity Incentive Plan.

In light of such increased equity compensation, in February 2020, the board of directors approved an amendment to the stock ownership guidelines, which will be effective on the date of the Annual Meeting. Under the amended stock ownership guidelines, in addition to the existing requirements described in the section entitled "Executive Compensation—Stock Ownership Guidelines and Transactions in The Securities" above, the non-employee directors will be required to own shares with an equivalent value of \$750,000 by the later of (i) five years from the date of the Annual Meeting, or (ii) five years from becoming a non-employee director.

#### *Annual Limit on Non-Employee Director Compensation*

In addition to the changes to the non-employee director compensation arrangements described above, the Director Compensation Policy limits aggregate compensation (both cash and equity-based compensation) payable to each non-employee director to \$1,000,000 per year for services, except during such non-employee director's first year of service on the board of directors, in which case, such limit will be \$2,000,000 to account for the receipt of the initial equity grant to new non-employee directors.

#### *Plan Amendment*

The board of directors has authority to modify the terms of the Director Compensation Policy from time to time, provided that the annual limit on non-employee director compensation described above may not be amended without the approval of the stockholders. In addition, the compensation, nominating & governance committee may approve amendments to the policy from time to time which are administrative in nature. Other than any increase in the annual limit on non-employee director compensation, such modifications will not require stockholder approval unless otherwise provided by the board of directors or to the extent that stockholder approval may be required by law or under the rules of The Nasdaq Stock Market LLC (Nasdaq).

#### *Effective Date*

In the event the Director Compensation Policy is approved by the stockholders, the Director Compensation Policy will be effective as of January 1, 2020. Accordingly, all non-employee directors will receive compensation under the Director Compensation Policy for their period of service in 2020 (retroactive to January 1, 2020), and the non-employee directors who were appointed to the board of directors on or after January 1, 2020 will receive the one-time initial \$1,000,000 equity grant following stockholder approval of the Director Compensation Policy.

#### **Item 4**

##### Shareholder Proposal Regarding Change in Shareholder Voting

#### **Recommendation:**

We believe that shareholder approval is warranted. We oppose such differential voting power as it may have the effect of denying shareholders the opportunity to vote on matters of critical economic importance to them. We prefer that companies do not utilize multiple class capital structures to provide equal voting rights to all shareholders. **After evaluating the details pursuant to the shareholder proposal and in accordance with the Egan-Jones' Proxy Guidelines, we recommend a vote FOR this Proposal.**

#### **Background:**

The shareholders are being asked to act on a proposal that requests the Board to take all practicable steps in its control to initiate and adopt a recapitalization plan for all outstanding stock to have one vote per share. The proponents recommend that this be done through a phase-out process in which the board would, within seven years or other timeframe justified by the board, establish fair and appropriate mechanisms through which disproportionate rights of Class B shareholders could be eliminated. This is not intended to unnecessarily limit the Board's judgment in crafting the requested change in

accordance with applicable laws and existing contracts.

In 2019, Facebook was fined \$5 billion by the Federal Trade Commission for mishandling users' personal information. This followed a tumultuous year of scandals that has resulted in the loss of users, decline in user confidence, and included a one-day stock price drop that wiped off "more than \$119bn ... [from] Facebook's market value" in July 2018. The public scandals that have caused this loss in shareholder value came from management and Board decisions that have not protected shareholder investment.

In allowing certain stock more voting power, the company takes public shareholder money but does not provide all shareholders an equal voice in the company's governance, and therefore severely limits shareholders' ability to provide effective feedback to management and the board. Founder Mark Zuckerberg controls over 53% of the vote, though he owns less than 13% of the economic value of the firm.

Without equal voting rights, shareholders cannot hold management accountable. This is exemplified by the 2016 attempt by Facebook to create a non-voting class of stock. Described as a move to ensure that Mr. Zuckerberg retained control of the Company, the new class of stock was approved at the annual meeting despite the fact that almost 1.5 billion shares of stock voted AGAINST its creation. Only threat of a lawsuit "by shareholders who claimed that conflicts of interest and other behind-the-scenes discussions tainted a board decision to approve the creation of a new class of shares" was able to incite reversal of the plan.

Facebook's 10-K describes the risk of the current share system: "Mr. Zuckerberg is entitled to vote his shares...in his own interests, which may not always be in the interests of our stockholders generally."

The Council for Institutional Investors (CII) recommends a seven year phase-out of dual class share offerings. The International Corporate Governance Network supports CII's recommendation "to require to a time-based sunset clause for dual class shares to revert to a traditional one-share/one-vote structure no more than seven years after a company's IPO date."

Fake news, election interference, and threats to the democracy -- shareholders need more than deny, deflect, and delay from the Company's management.

## Item 5

### Shareholder Proposal Regarding an Independent Chair

#### Recommendation:

We believe that there is an inherent potential conflict in having an Inside director serve as the Chairman of the board. Consequently, we prefer that companies separate the roles of the Chairman and CEO and that the Chairman be independent to further ensure board independence and accountability. After evaluating the details pursuant to the shareholder proposal and in accordance with the Egan-Jones' Proxy Guidelines, **we recommend a vote FOR this Proposal.**

#### Background:

The shareholders are being asked to act on a proposal that requests the Board of Directors to adopt as policy, and amend the bylaws as necessary, to require henceforth that the Chair of the Board of Directors, whenever possible, be an independent member of the Board. This independence policy shall apply prospectively so as not to violate any contractual obligations. If the Board determines that a Chair who was independent when selected is no longer independent, the Board shall select a new Chair who satisfies the requirements of the policy within a reasonable amount of time. Compliance with this policy is waived if no independent director is available and willing to serve as Chair.

Since the occurrence of the financial crisis, the clamor for independent chairman proposals has usually formulated either as a proposal to separate the roles of CEO and chair or as a proposal that the chairman be an independent director. Lehman Brothers and Bear Stearns used to have a combined chairman and CEO post, a fact, which has led to criticism of the dual role.

It has been a prevalent practice for large companies to have the CEO and chair positions combined. According to Spencer Stuart ([http://www.corpgov.deloitte.com/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/USEng/Documents/Nominating-Corporate%20Governance%20Committee/Board%20Composition%20and%20Recruitment/SpencerStuartBI%202013\\_04Nov2013-lowres.pdf](http://www.corpgov.deloitte.com/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/USEng/Documents/Nominating-Corporate%20Governance%20Committee/Board%20Composition%20and%20Recruitment/SpencerStuartBI%202013_04Nov2013-lowres.pdf)), in 2013, 25% of S&P 500 boards have a truly independent chair, a non-executive director or a former executive director, compared with 16% five years ago – a proof that splitting the dual role has become a business trend since the mid-2000's. This reflects the views of certain shareholders that having the CEO or any top executive serve as chairman could be detrimental to the whole board's independence. The CEO's main role is to manage the company, with the board serving as a lookout to the management. As a result, the chairman, being the one who runs the board, should be accountable to the shareholders. When the two roles are combined, there is a possibility of lack of independent oversight and minimal accountability in the boardroom that could put a company's long-term health and profitability and the interests of shareholders at risk.

Facebook CEO Mark Zuckerberg has been Board Chair since 2012. His dual-class shareholdings give him approximately 58% of Facebook's voting shares while holding only 13% of the economic interest, leaving the board, even with a lead independent director, with only a limited ability to check Mr. Zuckerberg's power. The proponents believe this weakens Facebook's governance and oversight of management. Selecting an independent Chair would free the CEO to focus on managing the Company and enable the Chairperson to focus on oversight and strategic guidance.

Facebook has resisted recent shareholder requests to separate these roles. At the 2019 annual meeting, according to the calculations, this proposal received the support of 68% of the votes cast when excluding the shares of 13 executives and board members. However, the board has not acted on this important signal from its non-insider shareholders.

Alphabet, Microsoft, Apple, and Autodesk all have separate CEO and chairperson roles.

The proponents believe this lack of independent board Chair and oversight has contributed to Facebook missing, or mishandling, a number of severe controversies, increasing risk exposure and costs to shareholders.

Concentrating power in the hands of one person - any person - is unwise. Looking forward to future growth opportunities, the proponents believe Facebook needs strong risk oversight and to rebuild trust with investors, employees, users, and regulators. Transitioning to an independent board chair is necessary to rebuild the company's reputation and to create a governance environment with the benefits of genuine accountability and meaningful oversight.

## Item 6

### Shareholder Proposal Regarding Majority Voting for Directors

#### Recommendation:

We believe that a simple majority vote in director election will strengthen the Company's corporate governance practice. Contrary to plurality voting, a simple majority standard will give the shareholders a meaningful way of electing directors by limiting the power of shareholders to elect poorly performing directors. **As such, we recommend a vote FOR this Proposal.**

#### Background:

The shareholders are being asked to act on a proposal that requests the Board of Directors to initiate the appropriate process as soon as possible to amend the Company's articles of incorporation and/or bylaws to provide that director nominees shall be elected by the affirmative vote of the majority of votes cast at an annual meeting of shareholders, with a plurality vote standard retained for contested director elections, that is, when the number of director nominees exceeds the number of board seats. This proposal includes that a director who receives less than such a majority vote be removed from the board immediately or as soon as a replacement director can be qualified on an expedited basis. If such a director has key experience, they can transition to being a consultant or a director emeritus. To provide shareholders a meaningful role in director elections, the Company's current director election standard should be changed from a plurality vote standard to a majority vote standard where only board nominated candidates are on the ballot.

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This will establish a more meaningful vote standard for board nominees and could lead to improved performance. Under the Company's current voting system, a director can be elected if all shareholders oppose the director but one shareholder votes FOR, if even by mistake.

More than 89% of the companies in the S&P 500 have adopted majority voting for uncontested elections, as have 67% of the S&P 1500.

BlackRock's proxy voting guidelines include the following: "Majority voting standards assist in ensuring that directors who are not broadly supported by shareholders are not elected to serve as their representatives." Among the Company's largest shareholders: T. Rowe Price Associates and BlackRock both voted FOR 88.9% of shareholder proposals on this topic. SSgA Funds Management voted FOR 100% of such proposals.

Facebook operates essentially as a dictatorship. Mark Zuckerberg controls a majority of the votes using a multi-class share structure with unequal voting rights. Shareholders cannot elect directors annually, call special meetings and have no right to act by written consent. A supermajority vote is required to amend certain bylaws. The Board is locked into an out-dated governance structure that reduces board accountability to shareholders. Reform is needed.

Facebook's autocratic corporate governance is spilling into civil society. Facebook may profit in the short-term from ads full of lies about Brexit and presidential candidates. See <https://youtu.be/OQSMr-3GGvQ> and [https://youtu.be/gfN2\\_LRv54w?t=9](https://youtu.be/gfN2_LRv54w?t=9) However, such irresponsible policies are likely to lead a backlash, such as a breakup or heavy regulations.

#### Item 7

##### Shareholder Proposal Regarding Political Advertising

#### Recommendation:

Given the reputational risks that the Company face, we believe that improved transparency and accountability adds to a company's long-term sustainability to its stakeholders. We believe that the preparation of the report will allow the Company to evaluate its activities related to political advertising, and at the same time assess the operational, reputational, and social implications of such to the Company itself. **After evaluating the details pursuant to the shareholder proposal and in accordance with the Egan-Jones' Guidelines, we recommend a vote FOR this Proposal.**

#### Background:

The shareholders are being asked to act on a proposal that requests the Board of Directors, at a reasonable cost and excluding proprietary information, to report on the controversy surrounding political advertising and posts on Facebook. Such report should evaluate the implications of the company's policies that may exempt politicians' posts and political advertisements from elements of platform rules such as the Company's Community Standards and its fact-checking process. Such report should assess the operational, reputational, and social license implications of the company policies, as well as the board's assessment of the concerns regarding the potential impact of those policies on democracy, public discourse, and civil and human rights.

**Whereas**, on an earnings call with investors in October, Mark Zuckerberg said of the Company's new policy on political ads, "from a business perspective, the controversy this creates far outweighs the very small percent of our business that these political ads make up. We estimate these ads from politicians will be less than 0.5% of our revenue next year... To put this in perspective, the Federal Trade Commission fine that these same critics said wouldn't be enough to change our incentives was more than 10 times bigger than this."

**Whereas**, this relaxation of standards subjects the company to material costs and risks in an environment of greater regulation and negative publicity which may even prove existential for the company. A recent European Court ruling regarding the defamation of an Austrian politician on Facebook decided European country courts have jurisdiction over Facebook's content internationally if it was found to be defamatory or otherwise illegal. While various anti-trust investigations against the company continue domestically, the threat of being broken up by legislators increases if the company is not seen as acting in good faith by regulating itself, particularly given the company's status as the world's largest social media platform.

**Whereas**, the Company has prided itself on promoting authenticity in encouraging real names and photos in profiles. Having "face" in the company name highlights this notion of transparent interactions, which has been a key aspect of the Company's success in the social media space, supported by costly procedures by the company to promote truthful content and accountability. These larger goals and the company's brand are undermined by this carve out.

**Whereas**, more than 200 Facebook employees signed a letter calling for holding political ads to the same standards as other advertising, stronger design measures to better distinguish political ads from other content, and restricting targeting for political ads. The employees also recommend imposing a silent period ahead of elections and imposing spending caps for politicians.

**Whereas**, democracy itself may be at stake in the targeted use of paid false and misleading political advertisements, there is also a larger threat to the company, raised by Senator Mark Warner's letter to the company, regarding whether the Company's license to operate will be at stake if the company's practices undermine free and fair elections by an informed electorate.

#### Item 8

##### Shareholder Proposal Regarding Human/Civil Rights Expert on Board

#### Recommendation:

We believe that human rights issues are needed to be escalated at the board level to ensure proper accountability and oversight. **After evaluating the details pursuant to the shareholder proposal and in accordance with the Egan-Jones' Proxy Guidelines, we recommend a vote FOR this Proposal.**

#### Background:

The shareholders are being asked to act on a proposal that requests the Board of Directors to nominate for the next Board election at least one candidate who:

- has a high level of human and/or civil rights expertise and experience and is widely recognized as such, as reasonably determined by Facebook's Board, and
- will qualify as an independent director within the meaning of the listing standards of the New York Stock Exchange.

Shareholders believe Facebook requires expert, board level oversight of civil and human rights issues to assess risk and develop strategy to avoid causing or contributing to widespread violations of human or civil rights, such as supporting genocide, hate campaigns, or violence.

Shareholders are concerned Facebook's content governance has proven ad hoc, ineffectual, and poses risk to shareholder value. Civil rights advocates have criticized Facebook for failing to address hate speech that targets groups based on race and gender.

#### Item 9

##### Shareholder Proposal Regarding Report on Civil and Human Rights Risks

#### Recommendation:

We believe that the adoption of a more comprehensive human rights policy, coupled with implementation, enforcement, independent monitoring, and transparent, comprehensive reporting will assure shareholders of the Company's global leadership. **After evaluating the details pursuant to the shareholder proposal and in accordance with the Egan-Jones' Proxy Guidelines, we recommend a vote FOR this Proposal.**

#### Background:

The shareholders are being asked to act on a proposal that urges the Board of Directors to oversee management's preparation of a report on Board-level oversight of civil and human rights risks. In doing so, Facebook might consider reporting on board level expertise in civil and human rights; board level responsibilities for advising on and managing civil and human rights risk; board level expertise pertinent to oversight regarding civil and human rights issues impacting Facebook's community of global users; and the presence of board level infrastructure ensuring ongoing consultation with leading civil and human rights experts.

Financial and operational risks related to a lack of civil and human rights oversight, such as reputational damage and litigation, can adversely affect shareholder value.

According to Investopedia, almost all of Facebook's revenue comes from advertising (<https://bit.ly/36A8nsZ>). Targeted advertising associated with civil and human rights violations presents financial, legal and reputational risk. In 2019, Facebook paid \$5 million to settle civil rights lawsuits claiming Facebook's advertising systems excluded people from seeing housing, employment and credit ads based on age, gender and race (<https://cnn.it/2RKXJLD>). This included lawsuits claiming violations of the Fair Housing Act by "encouraging, enabling, and causing housing discrimination through the company's advertising platform," as well as a gender discrimination complaint alleging Facebook posted biased jobs ads in violation of the Civil Rights Act.

While Facebook recently took steps to limit discriminatory targeting in advertising, concerns have been raised that the algorithm used to determine how ads are delivered to users is itself discriminatory (<https://bit.ly/2DERRLJ>). This may leave Facebook vulnerable to additional lawsuits for violations of the Fair Housing Act, Equal Credit Opportunity Act, and Title VII of the Civil Rights Act of 1964, among others. Many states also have anti-discrimination and equal opportunity laws, which may be more inclusive than federal statutes.

According to several experts, including the President and Executive Director of the Lawyers' Committee for Civil Rights Under Law, Facebook continues to engage in practices that target protected classes, making it vulnerable to further lawsuits. These practices can also lead to boycotts, which can reduce overall advertising revenue. For instance, in 2018 the National Association for the Advancement of Colored People launched a boycott of Facebook after a report revealed that a Russian influence campaign undertaken during the 2016 U.S. presidential elections explicitly targeted African Americans.

Although Facebook has taken steps to limit its civil and human rights risk exposure - such as beginning a civil rights audit in 2018 - Color of Change, a leading civil rights organization, has noted that "the



permanent structure of civil rights work is woefully under-addressed" in the audit. Investors are concerned that these efforts have not received adequate attention from leadership. In testimony before the House Committee on Financial Services in October 2019, Mark Zuckerberg was questioned about Facebook's civil rights expertise and, according to The Washington Post, stumbled when asked to name the Civil Rights Audit's recommendations (<https://wapo.st/2LMemmc>).

## Item 10

### Shareholder Proposal Regarding Child Exploitation

#### Recommendation:

We believe that approval of the proposal will enable the Company to gather adequate information on the risks brought by the increasing sexual exploitation of children online, and therefore use such information in addressing the operational and reputational impacts not only within the Company, but also in the communities it serves. **After evaluating the details pursuant to the shareholder proposal and in accordance with the Egan-Jones' Guidelines, we recommend a vote FOR this Proposal.**

#### Background:

The shareholders are being asked to act on a proposal that requests the Board of Directors to issue a report by February 2021 assessing the risk of increased sexual exploitation of children as the Company develops and offers additional privacy tools such as end-to-end encryption. The report should address potential adverse impacts to children (18 years and younger) and to the company's reputation or social license, assess the impact of limits to detection technologies and strategies, and be prepared at reasonable expense and excluding proprietary/confidential information.

Child sexual exploitation online (or Child Sexual Abuse Material-CSAM) is an escalating threat to children worldwide exacerbated by the growth in social media platforms and children increasingly accessing the Internet and mobile applications;

INTERPOL reported about 4,000 unique child sex images circulating worldwide in 1995<sup>1</sup>; yet in 2018, the National Center for Missing and Exploited Children received 45.8 million child sex abuse images and videos (from 18.4 million reports)—double the amount from 2017 and a 10,000 percent increase since 2004;<sup>2</sup>

The World Health Organization estimates 200 million children are sexually abused each year<sup>3</sup> and much of that abuse is online or captured and distributed digitally—where children are re-victimized with each viewing;

1 in 5 children are now sexually solicited online<sup>4</sup>

The *New York Times* reports Facebook Messenger was responsible for "nearly 12 million of the 18.4 million worldwide reports of" CSAM in 2018;<sup>5</sup>

U.S. Deputy Attorney General Jeffrey Rosen noted that Facebook (including subsidiaries) accounted for "well over 16 million reports" of CSAM globally in 2018, and "70% of Facebook's reporting" ... would likely not happen "if the company deploys end-to-end encryption across all of its platforms..."<sup>6</sup>

TechCrunch reports that WhatsApp chat groups, "cloaked by the app's end-to-end encryption," were spreading CSAM to pedophile rings;<sup>7</sup>

Facebook's plans to expand end-to-end encryption will make it unable to track CSAM on social media enabling more offenders to evade detection<sup>8</sup>;

Facebook and its subsidiaries have faced other recent controversies of child sexual exploitation, including

- Facebook being sued in a Texas court for facilitating sex trafficking of minors<sup>9</sup>
- Instagram being linked to "rampant sex trafficking, child sexual abuse grooming, as well as adult fetishization of young girls...", "sexually graphic comments on minor's photos" and allowing strangers to "direct message minors."<sup>10</sup>
- Pedophiles "sharing Dropbox links to child porn via Instagram"<sup>11</sup>

Facebook may face significant regulatory risk if it cannot curb child sexual abuse on existing platforms or on encrypted messaging. Senate Judiciary Committee member Marsha Blackburn stated in a December 2019 hearing that Facebook and peers need to "get your act together, or we will gladly get your act together for you."<sup>12</sup> Most of the Committee supported that sentiment.<sup>13</sup>

Proponents note Facebook has hired content moderators, has some policies and partnerships, and has implemented some practices and investments in technology to tackle child sex exploitation through its businesses, but proponents believe such activities have not significantly reduced the volume of CSAM or children being sexually exploited.

<sup>1</sup><https://www.icmec.org/commonwealth-internet-governance-forum-a-joint-report-on-online-child-protection->

<sup>2</sup><https://www.facebook.com/wearethorn/photos/a.539537636085793/2387317711307767/?type=3&theater>

<sup>3</sup><https://www.undispatch.com/here-is-how-every-country-ranks-on-child-safety/>

<sup>4</sup>[https://valueforgood.com/publications/Al\\_Making\\_Internet\\_Safer\\_for\\_Children.pdf](https://valueforgood.com/publications/Al_Making_Internet_Safer_for_Children.pdf)

<sup>5</sup><https://www.nytimes.com/interactive/2019/09/28/us/child-sex-abuse.html?action=click&module=RelatedCoverage&pgtype=Article&ion=Footer>

<sup>6</sup><https://www.justice.gov/opa/speech/deputy-attorney-general-jeffrey-rosen-delivers-remarks-justice-departments-lawful-access>

<sup>7</sup><https://techcrunch.com/2018/12/20/whatsapp-pornography/>

<sup>8</sup><https://www.theaustralian.com.au/nation/child-sex-abuse-rife-on-facebook/news-story/5b8d40edd15541ed955fd9f2ec86cd2b>

<sup>9</sup><https://www.nytimes.com/2019/12/03/technology/facebook-lawsuit-section-230.html>

<sup>10</sup><https://endsexualexploitation.org/articles/statement-instagram-is-predators-paradise-says-international-group-of-human-rights-ngos/>; <https://endsexualexploitation.org/articles/senate-hearing-uncovers-sex-exploitation-in-apps-and-social-media/>

<sup>11</sup><https://www.dailymail.co.uk/news/article-6574015/How-pedophiles-using-Instagram-secret-portal-apparent-network-child-porn.html>

<sup>12</sup><https://www.politico.com/news/2019/12/10/tech-companies-bipartisan-congress-encryption-080704>;

<sup>13</sup><https://www.judiciary.senate.gov/meetings/encryption-and-lawful-access-evaluating-benefits-and-risks-to-public-safety-and-privacy>

## Item 11

### Shareholder Proposal Regarding Median Gender Pay-Gap

#### Recommendation:

We believe that approval of the proposal is necessary and warranted in the Company. Pay disparities by gender in companies, in our view, could bring operational risks and reputational damage that is detrimental to shareholder value. **After evaluating the details pursuant to the shareholder proposal and in accordance with the Egan-Jones' Guidelines, we recommend a vote FOR this Proposal.**

#### Background:

The shareholders are being asked to act on a proposal that requests Facebook to report on the company's global median gender/racial pay gap, including associated policy, reputational, competitive, and operational risks, and risks related to recruiting and retaining diverse talent. The report should be prepared at reasonable cost, omitting proprietary information, litigation strategy and legal compliance information.

The gender pay gap is the difference between male and female median earnings expressed as a percentage of male earnings (Organization for Economic Cooperation and Development).

A report adequate for investors to assess company strategy and performance would include the percentage global median pay gap between male and female employees across race and ethnicity, including base, bonus and equity compensation.

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