Facebook Inc
Form 10-Q
July 28, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-35551

FACEBOOK, INC.
(Exact name of registrant as specified in its charter)

Delaware	20-1665019
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1601 Willow Road, Menlo Park, California 94025
(Address of principal executive offices and Zip Code)
(650) 543-4800
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (Exchange Act) during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date.

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

FACEBOOK, INC.
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NOTE ABOUT FORWARD-LOOKING STATEMENTS

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

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

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

LIMITATIONS OF KEY METRICS AND OTHER DATA

The numbers for our key metrics, which include our daily active users (DAUs), mobile DAUs, monthly active users (MAUs), mobile MAUs, and average revenue per user (ARPU), as well as certain other metrics such as mobile-only DAUs and mobile-only MAUs, are calculated using internal company data based on the activity of user accounts. While these numbers are based on what we believe to be reasonable estimates of our user base for the applicable period of measurement, there are inherent challenges in measuring usage of our products across large online and mobile populations around the world.

For example, there may be individuals who maintain one or more Facebook accounts in violation of our terms of service. We estimate, for example, that "duplicate" accounts (an account that a user maintains in addition to his or her principal account) may have represented less than 5% of our worldwide MAUs in 2015. We also seek to identify "false" accounts, which we divide into two categories: (1) user-misclassified accounts, where users have created personal profiles for a business, organization, or non-human entity such as a pet (such entities are permitted on Facebook using a Page rather than a personal profile under our terms of service); and (2) undesirable accounts, which represent user profiles that we determine are intended to be used for purposes that violate our terms of service, such as spamming. In 2015, for example, we estimate user-misclassified and undesirable accounts may have represented less than 2% of our worldwide MAUs. We believe the percentage of accounts that are duplicate or false is meaningfully lower in developed markets such as the United States or United Kingdom and higher in developing markets such as India and Turkey. However, these estimates are based on an internal review of a limited sample of accounts and we apply significant judgment in making this determination, such as identifying names that appear to be fake or other behavior that appears inauthentic to the reviewers. As such, our estimation of duplicate or false accounts may not accurately represent the actual number of such accounts. We are continually seeking to improve our ability to identify duplicate or false accounts and estimate the total number of such accounts, and such estimates may change due to improvements or changes in our methodology.

Our data limitations may affect our understanding of certain details of our business. For example, while user-provided data indicates a decline in usage among younger users, this age data is unreliable because a disproportionate number of our younger users register with an inaccurate age. Accordingly, our understanding of usage by age group may not be complete.

Some of our metrics have also been affected by applications on certain mobile devices that automatically contact our servers for regular updates with no user action involved, and this activity can cause our system to count the user associated with such a device as an active user on the day such contact occurs. The impact of this automatic activity on our metrics varies by geography because mobile usage varies in different regions of the world. In addition, our data regarding the geographic location of our users is estimated based on a number of factors, such as the user's IP address and self-disclosed location. These factors may not always accurately reflect the user's actual location. For example, a mobile-only user may appear to be accessing Facebook from the location of the proxy server that the user connects to rather than from the user's actual location. The methodologies used to measure user metrics may also be susceptible to algorithm or other technical errors. Our estimates for revenue by user location and revenue by user device are also affected by these factors. For example, we discovered an error in the algorithm we used to attribute our revenue by user geography in late 2015. While this issue did not affect our overall worldwide revenue, it did affect our attribution of revenue to different geographic regions. The fourth quarter of 2015 revenue by user geography and ARPU amounts were adjusted to reflect this reclassification. We regularly review our processes for calculating these metrics, and from time to time we may discover inaccuracies in our metrics or make adjustments to improve their accuracy, including adjustments that may result in the recalculation of our historical metrics. We believe that any such inaccuracies or adjustments are immaterial unless otherwise stated. In addition, our DAU and MAU estimates will differ from estimates published by third parties due to differences in methodology. For example, some third parties are not able to accurately measure mobile users or do not count mobile users for certain user groups or at all in their analyses.

The numbers of DAUs, mobile DAUs, MAUs, mobile MAUs, mobile-only DAUs and mobile-only MAUs discussed in this Quarterly Report on Form 10-Q, as well as ARPU, do not include Instagram, WhatsApp, or Oculus users unless they would otherwise qualify as such users, respectively, based on their other activities on Facebook. In addition, other user engagement metrics included herein do not include Instagram, WhatsApp, or Oculus unless otherwise specifically stated.

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PART I—FINANCIAL INFORMATION
Item 1. Financial Statements
FACEBOOK, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except for number of shares and par value)
(Unaudited)

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

See Accompanying Notes to Condensed Consolidated Financial Statements.

FACEBOOK, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In millions, except per share amounts)
(Unaudited)

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

See Accompanying Notes to Condensed Consolidated Financial Statements.

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FACEBOOK, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

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

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

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

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

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

See Accompanying Notes to Condensed Consolidated Financial Statements.

FACEBOOK, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (GAAP) and applicable rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. As such, the information included in this quarterly report on Form 10-Q should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

The condensed consolidated balance sheet as of December 31, 2015 included herein was derived from the audited financial statements as of that date, but does not include all disclosures including notes required by GAAP.

The condensed consolidated financial statements include the accounts of Facebook, Inc. and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated.

The accompanying condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for the full year ending December 31, 2016.

There have been no changes to our significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 that have had a material impact on our condensed consolidated financial statements and related notes.

Use of Estimates

Conformity with GAAP requires the use of estimates and judgments that affect the reported amounts in the condensed consolidated financial statements and accompanying notes. These estimates form the basis for judgments we make about the carrying values of our assets and liabilities, which are not readily apparent from other sources. We base our estimates and judgments on historical information and on various other assumptions that we believe are reasonable under the circumstances. GAAP requires us to make estimates and judgments in several areas, including, but not limited to, those related to revenue recognition, collectability of accounts receivable, contingent liabilities, fair value of financial instruments, fair value of acquired intangible assets and goodwill, useful lives of intangible assets and property and equipment, and income taxes. These estimates are based on management's knowledge about current events and expectations about actions we may undertake in the future. Actual results could differ materially from those estimates.

Recent Accounting Pronouncement

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

In March 2016, the FASB issued Accounting Standards Update No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) (ASU 2016-08) which clarifies the implementation guidance on principal versus agent considerations. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. This guidance will be effective for us in the first quarter of 2018, with the option to adopt it in the first quarter of 2017. We are still evaluating the effect that this guidance will have on our consolidated financial statements and related disclosures.

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

Note 2. Earnings per Share

We compute earnings per share (EPS) of Class A and Class B common stock using the two-class method required for participating securities. We consider restricted stock awards to be participating securities because holders of such shares have non-forfeitable dividend rights in the event of our declaration of a dividend for common shares. Undistributed earnings allocated to participating securities are subtracted from net income in determining net income attributable to common stockholders. Basic EPS is computed by dividing net income attributable to common stockholders by the weighted-average number of shares of our Class A and Class B common stock outstanding, adjusted for outstanding shares that are subject to repurchase.

For the calculation of diluted EPS, net income attributable to common stockholders for basic EPS is adjusted by the effect of dilutive securities, such as awards under our equity compensation plans and inducement awards under separate non-plan restricted stock unit (RSU) award agreements. In addition, the computation of the diluted EPS of Class A common stock assumes the conversion of our Class B common stock to Class A common stock, while the diluted EPS of Class B common stock does not assume the conversion of those shares to Class A common stock. Diluted EPS attributable to common stockholders is computed by dividing the resulting net income attributable to common stockholders by the weighted-average number of fully diluted common shares outstanding.

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

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

Basic and diluted EPS are the same for each class of common stock because they are entitled to the same liquidation and dividend rights.

The numerators and denominators of the basic and diluted EPS computations for our common stock are calculated as follows (in millions, except per share amounts):

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

Note 3. Cash and Cash Equivalents, and Marketable Securities

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

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

The gross unrealized gains or losses on our marketable securities as of June 30, 2016 and December 31, 2015 were not significant. In addition, the gross unrealized losses that had been in a continuous loss position for 12 months or longer were not significant as of June 30, 2016 and December 31, 2015. As of June 30, 2016, we considered the decreases in market value on our marketable securities to be temporary in nature and did not consider any of our investments to be other-than-temporarily impaired.

The following table classifies our marketable securities by contractual maturities (in millions):

	June 30, 2016
Due in one year	$5,715
Due in one to three years	12,470
Total	$18,185

Note 4. Fair Value Measurement

The following table summarizes, for assets or liabilities measured at fair value, the respective fair value and the classification by level of input within the fair value hierarchy (in millions):

		Fair Value Measurement at Reporting Date Using		
Description	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents:				
Money market funds	$2,311	$2,311	$ —	$ —
U.S. government securities	207	207	—	—
U.S. government agency securities	505	505	—	—
Corporate debt securities	126	—	126	—
Marketable securities:				
U.S. government securities	6,456	6,456	—	—
U.S. government agency securities	6,493	6,493	—	—
Corporate debt securities	5,236	—	5,236	—
Total cash equivalents and marketable securities	$21,334	$15,972	$ 5,362	$ —
Accrued expenses and other current liabilities:				
Contingent consideration liability	$85	$—	$ 85	$ —
Other liabilities:				
Contingent consideration liability	$242	$—	$ 242	$ —

		Fair Value Measurement at Reporting Date Using		
Description	December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents:				
Money market funds	$ 2,409	$2,409	$ —	$ —
U.S. government securities	597	597	—	—
U.S. government agency securities	145	145	—	—
Corporate debt securities	53	—	53	—
Marketable securities:				
U.S. government securities	5,948	5,948	—	—
U.S. government agency securities	4,475	4,475	—	—
Corporate debt securities	3,104	—	3,104	—
Total cash equivalents and marketable securities	$ 16,731	$13,574	$ 3,157	$ —

Other liabilities:				
Contingent consideration liability	$ 260	$—	$ —	$ 260

We classify our cash equivalents and marketable securities within Level 1 or Level 2 because we use quoted market prices or alternative pricing sources and models utilizing market observable inputs to determine their fair value.

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

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

Note 5. Property and Equipment

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

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

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

Note 6. Goodwill and Intangible Assets

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

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

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Intangible assets consist of the following (in millions):

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

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

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

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

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

Note 7. Long-term Debt

In May 2016, we terminated our undrawn five-year senior unsecured revolving credit facility that allowed us to borrow up to $6.5 billion and entered into a $2.0 billion senior unsecured revolving credit facility (2016 Facility). Any amounts outstanding under the 2016 Facility will be due and payable on May 20, 2021. As of June 30, 2016,