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

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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.

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.

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

Intangible assets consist of the following (in millions):

	Weighted-Average Remaining Useful Lives (in years)	June 30, 2016 Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	December 31, 2015 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, no amounts had been drawn down and we were in compliance with the covenants under the 2016 Facility.

Note 8. Commitments and Contingencies

Commitments

Leases

We have entered into various non-cancelable operating lease agreements for certain of our offices, land, and data centers with original lease periods expiring between 2016 and 2032. We are committed to pay a portion of the related actual operating expenses under certain of these lease agreements. Certain of these arrangements have free rent periods or escalating rent payment provisions, and we recognize rent expense under such arrangements on a straight-line basis. Operating lease expense was $60

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million and $118 million for the three and six months ended June 30, 2016, respectively, and $41 million and $79 million for the three and six months ended June 30, 2015, respectively. As of June 30, 2016, we had fully repaid all of our capital lease obligations.

Contingencies

Legal Matters

Beginning on May 22, 2012, multiple putative class actions, derivative actions, and individual actions were filed in state and federal courts in the United States and in other jurisdictions against us, our directors, and/or certain of our officers alleging violation of securities laws or breach of fiduciary duties in connection with our initial public offering (IPO) and seeking unspecified damages. We believe these lawsuits are without merit, and we intend to continue to vigorously defend them. The vast majority of the cases in the United States, along with multiple cases filed against The NASDAQ OMX Group, Inc. and The Nasdaq Stock Market LLC (collectively referred to herein as NASDAQ) alleging technical and other trading-related errors by NASDAQ in connection with our IPO, were ordered centralized for coordinated or consolidated pre-trial proceedings in the U.S. District Court for the Southern District of New York. In a series of rulings in 2013 and 2014, the court denied our motion to dismiss the consolidated securities class action and granted our motions to dismiss the derivative actions against our directors and certain of our officers. On July 24, 2015, the court of appeals affirmed the dismissal of the derivative actions. On December 11, 2015, the court granted plaintiffs' motion for class certification in the consolidated securities action. In addition, the events surrounding our IPO became the subject of various state and federal government inquiries. In May 2014, the Securities and Exchange Commission (SEC) notified us that it had terminated its inquiry and that no enforcement action had been recommended by the SEC.

On April 27, 2016, we announced a proposal to create a new class of non-voting capital stock (Class C capital stock) and our intention to declare and pay a dividend of two shares of Class C capital stock for each outstanding share of Class A and Class B common stock (the Reclassification). Following our announcement of the Reclassification, beginning on April 29, 2016, multiple purported class action lawsuits were filed on behalf of our stockholders in the Delaware Court of Chancery against us, certain of our board of directors, and Mark Zuckerberg. The lawsuits have been consolidated under the caption In re Facebook, Inc. Class C Reclassification Litig., C.A. No. 12286-VCL, and the consolidated complaint generally alleges that the defendants breached their fiduciary duties in connection with the Reclassification. Among other remedies, these lawsuits seek to enjoin the Reclassification as well as unspecified money damages, costs, and attorneys’ fees. We believe that the lawsuits are without merit and intend to vigorously defend against all claims asserted.

We are also party to various legal proceedings and claims that arise in the ordinary course of business. With respect to our outstanding legal matters, we believe that the amount or estimable range of reasonably possible loss will not, either individually or in the aggregate, have a material adverse effect on our business, consolidated financial position, results of operations, or cash flows. However, the outcome of litigation is inherently uncertain. Therefore, if one or more of these legal matters were resolved against us for amounts in excess of management's expectations, our results of operations and financial condition, including in a particular reporting period, could be materially adversely affected.

Note 9. Stockholders' Equity

Reclassification

In April 2016, our board of directors approved the Reclassification by approving amendments to our restated certificate of incorporation (the New Certificate) that would, among other things, create non-voting Class C capital stock. The Class C capital stock will have the same rights and powers, rank equally (including as to dividends and distributions, mergers or similar business combinations, and in connection with any liquidation, dissolution or winding up of the corporation), share ratably and be identical in all other respects and as to all matters to the shares of Class A and Class B common stock, except for voting rights and as expressly provided in the New Certificate. The New Certificate was approved by our stockholders on June 20, 2016. As of June 30, 2016, the New Certificate was not yet effective.

As part of the Reclassification, we announced that our board of directors intends to issue two shares of the Class C capital stock as a one-time stock dividend for each share of Class A and Class B common stock outstanding. The record and payment dates for this dividend will be determined by our board of directors in its discretion and there can be no assurance as to the timing of such dates. For accounting purposes, we expect this dividend will be treated as a stock split in the form of a dividend.

Share-based Compensation Plans

We maintain two share-based employee compensation plans: the 2012 Equity Incentive Plan (2012 Plan) and the 2005 Stock Plan (collectively, Stock Plans). Our 2012 Plan serves as the successor to our 2005 Stock Plan and provides for the issuance of incentive and nonstatutory stock options, restricted stock awards, stock appreciation rights, RSUs, performance shares, and stock bonuses to qualified employees, directors and consultants. Outstanding awards under the 2005 Stock Plan continue to be subject to the terms and conditions of the 2005 Stock Plan. Our board of directors approved the amendment and restatement of our 2012 Plan (the Amended 2012 Plan), which was approved by our stockholders and adopted by us in June 2016.

We initially reserved 25 million shares of our Class A common stock for issuance under our 2012 Plan. Following the date of the stock dividend described above, if it is declared and paid, the shares reserved and available for issuance under our Amended 2012 Plan will be shares of the new Class C Capital Stock, except for shares reserved for awards outstanding immediately prior to the payment of the dividend. The number of shares reserved for issuance under our Amended 2012 Plan increases automatically on January 1 of each of the calendar years during the term of the Amended 2012 Plan, which will continue through and including April 2026 unless terminated earlier by our board of directors or a committee thereof, by a number of shares of Class C capital stock (and prior to the date of the payment of the stock dividend described above, Class A common stock) equal to the lesser of (i) 2.5% of the total issued and outstanding shares of our Class A common stock and Class C capital stock as of the immediately preceding December 31st or (ii) a number of shares determined by our board of directors. Our board of directors elected not to increase the number of shares reserved for issuance in 2016.

The following table summarizes the activities of stock option awards under the Stock Plans for the six months ended June 30, 2016:

	Shares Subject to Options Outstanding			
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value[(1)]
	(in thousands)		(in years)	(in millions)
Balance as of December 31, 2015	8,443	$ 7.10		
Stock options exercised	(1,368)	3.92		
Balance as of June 30, 2016	7,075	$ 7.72	3.4	$ 754
Stock options vested and expected to vest as of June 30, 2016	7,073	$ 7.72	3.4	$ 754
Stock options exercisable as of June 30, 2016	5,351	$ 6.00	3.1	$ 579

(1) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying stock option awards and the official closing price of our Class A common stock of $114.28, as reported on the NASDAQ Global Select Market on June 30, 2016.

The following table summarizes the activities for our unvested RSUs for the six months ended June 30, 2016:

	Unvested RSUs[(1)]	
	Number of Shares	Weighted Average Grant Date Fair Value
	(in thousands)	
Unvested at December 31, 2015	116,409	$ 65.95
Granted	22,847	110.45
Vested	(24,136)	57.56
Forfeited	(3,073)	71.13
Unvested at June 30, 2016	112,047	$ 76.69

(1) Unvested shares include inducement awards issued in connection with an acquisition in 2014 and are subject to the terms, restrictions, and conditions of separate non-plan RSU award agreements.

The fair value as of the respective vesting dates of RSUs that vested during the three and six months ended June 30, 2016 was $1.18 billion and $2.63 billion, respectively, and $668 million and $1.48 billion, respectively, during the three and six months ended June 30, 2015.

As of June 30, 2016, there was $7.97 billion of unrecognized share-based compensation expense, of which (i) $7.58 billion was related to RSUs, and (ii) $394 million was related to restricted shares, shares related to our contingent consideration with performance conditions that were met as of June 30, 2016 but are still subject to service condition, and stock options. This unrecognized compensation expense is expected to be recognized over a weighted-average period of approximately three years.

Note 10. Income Taxes

Our tax provision for interim periods is determined using an estimate of our annual effective tax rate, adjusted for discrete items arising in that quarter. In each quarter, we update our estimate of the annual effective tax rate, and if our estimated annual tax rate changes, we make a cumulative adjustment in that quarter. Our quarterly tax provision, and our quarterly estimate of our annual effective tax rate, are subject to significant volatility due to several factors, including our ability to accurately predict our income (loss) before provision for income taxes in multiple jurisdictions, including the portions of our share-based compensation that will not generate tax benefits, and the effects of acquisitions and the integration of those acquisitions. In addition, our effective tax rate can be more or less volatile based on the amount of income before provision for income taxes.

Our effective tax rate is lower than the United States statutory rate primarily because of income in jurisdictions with tax rates lower than that of the United States. We have not provided United States taxes for all foreign earnings because we intend to indefinitely reinvest a substantial portion of those earnings outside of the United States. Our effective tax rate in the future will depend on the portion of our profits earned within and outside the United States, which will also be affected by our methodologies for valuing our intellectual property and intercompany transactions.

We are subject to taxation in the United States and various other state and foreign jurisdictions. The material jurisdictions in which we are subject to potential examination include the United States and Ireland. We are under examination by the Internal Revenue Service (IRS) for our 2008 through 2013 tax years. Our 2014 and subsequent years remain open to examination by the IRS. Our 2011 and subsequent years remain open to examination in Ireland. We do not anticipate a significant impact to our gross unrecognized tax benefits within the next 12 months related to these years. On July 27, 2016, we received a Statutory Notice of Deficiency (Notice) from the IRS relating to transfer pricing with our foreign subsidiaries in conjunction with the examination of the 2010 tax year. While the Notice applies only to the 2010 tax year, the IRS states that it will also apply its position for tax years subsequent to 2010, which, if the IRS prevails in its position, could result in an additional federal tax liability of an estimated aggregate amount of approximately $3.0 - $5.0 billion, plus interest and any penalties asserted. We do not agree with the position of the IRS and will file a petition in the United States Tax Court challenging the Notice. If the IRS prevails in the assessment of additional tax due based on its position, the assessed tax, interest and penalties, if any, could have a material adverse impact on our financial position, results of operations or cash flows.

Our gross unrecognized tax benefits were $3.15 billion and $3.02 billion as of June 30, 2016 and December 31, 2015, respectively. If the gross unrecognized tax benefits as of June 30, 2016 were realized in a subsequent period, this would result in a tax benefit of $2.46 billion within our provision of income taxes at such time. Our existing tax positions will continue to generate an increase in unrecognized tax benefits in subsequent periods.

Although the timing of the resolution, settlement, and closure of any audits is highly uncertain, it is reasonably possible that the balance of gross unrecognized tax benefits could significantly change in the next 12 months. However, given the number of years remaining that are subject to examination, we are unable to estimate the full range of possible adjustments to the balance of gross unrecognized tax benefits.

Note 11. Geographical Information

Revenue by geography is based on the billing address of the marketer or developer. The following tables set forth revenue and property and equipment, net by geographic area (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue:				
United States	$ 2,852	$ 1,880	$5,361	$3,533
Rest of the world (1)	3,584	2,162	6,457	4,053
Total revenue	$ 6,436	$ 4,042	$11,818	$7,586

(1) No individual country, other than disclosed above, exceeded 10% of our total revenue for any period presented.

	June 30, 2016	December 31, 2015
Property and equipment, net:		
United States	$ 5,656	$ 4,498
Sweden	717	713
Rest of the world(1)	731	476
Total property and equipment, net	$ 7,104	$ 5,687

(1) No individual country, other than disclosed above, exceeded 10% of our total property and equipment, net for any period presented.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of our financial condition and results of operations in conjunction with the condensed consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q and with our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the Securities and Exchange Commission. In addition to our historical condensed consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Quarterly Report on Form 10-Q, particularly in Part II, Item 1A, "Risk Factors." For a discussion of limitations in the measurement of certain of our user metrics, see the section entitled "Limitations of Key Metrics and Other Data" in this Quarterly Report on Form 10-Q.

Certain revenue information in the section entitled "—Three and Six Months Ended June 30, 2016 and 2015—Revenue—Foreign Exchange Impact on Revenue" is presented on a constant currency basis. This information is a non-GAAP financial measure. To calculate revenue on a constant currency basis, we translated revenue for the three and six months ended June 30, 2016 using the prior year's monthly exchange rates for our settlement currencies other than the U.S. dollar. This non-GAAP financial measure is not intended to be considered in isolation or as a substitute for, or superior to, financial information prepared and presented in accordance with GAAP. This measure may be different from non-GAAP financial measures used by other companies, limiting its usefulness for comparison purposes. Moreover, presentation of revenue on a constant currency basis is provided for year-over-year comparison purposes, and investors should be cautioned that the effect of changing foreign currency exchange rates has an actual effect on our operating results. We believe this non-GAAP financial measure provides investors with useful supplemental information about the financial performance of our business, enable comparison of financial results between periods where certain items may vary independent of business performance, and allows for greater transparency with respect to key metrics used by management in operating our business.

Executive Overview of Second Quarter Results

Our key user metrics and financial results for the second quarter of 2016 are as follows:

User growth:

- Daily active users (DAUs) were 1.13 billion on average for June 2016, an increase of 17% year-over-year.
- Mobile DAUs were 1.03 billion on average for June 2016, an increase of 22% year-over-year.
- Monthly active users (MAUs) were 1.71 billion as of June 30, 2016, an increase of 15% year-over-year.
- Mobile MAUs were 1.57 billion as of June 30, 2016, an increase of 20% year-over-year.

Financial results:

- Revenue was $6.44 billion, up 59% year-over-year, and ad revenue was $6.24 billion, up 63% year-over-year.
- Total costs and expenses were $3.69 billion.
- Income from operations was $2.75 billion.
- Net income was $2.06 billion with diluted earnings per share of $0.71.
- Capital expenditures were $995 million.
- Effective tax rate was 26%.
- Cash and cash equivalents and marketable securities were $23.29 billion as of June 30, 2016.
- Headcount was 14,495 as of June 30, 2016.

In the second quarter of 2016, we continued to make progress on our three main revenue growth priorities: (i) continuing to capitalize on the shift to mobile, (ii) growing the number of marketers using our ad products, and (iii) making our ads more relevant and effective through expanded capabilities of tools for marketers.

We continued to invest, based on our roadmap, in: (i) our most developed ecosystem, the Facebook app and platform, (ii) driving growth and building ecosystems around our products and features that already have significant user bases, such as Messenger, Instagram, WhatsApp and video, and (iii) long-term technology initiatives that we believe will further our mission to connect the world, such as virtual reality and artificial intelligence. We intend to continue to invest based on this roadmap and we expect these investments and our increasingly global scale will drive significant overall year-over-year expense growth compared to 2015.

Trends in Our User Metrics

The numbers for our key metrics, our daily active users (DAUs), mobile DAUs, MAUs, mobile MAUs, and average revenue per user (ARPU), and certain other metrics such as mobile-only DAUs and mobile-only MAUs, 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 do not include Instagram, WhatsApp, or Oculus unless otherwise specifically stated.

Trends in the number of users affect our revenue and financial results by influencing the number of ads we are able to show, the value of our ads to marketers, the volume of Payments transactions, as well as our expenses and capital expenditures.

- Daily Active Users (DAUs). We define a daily active user as a registered Facebook user who logged in and visited Facebook through our website or a mobile device, or used our Messenger application (and is also a registered Facebook user), on a given day. We view DAUs, and DAUs as a percentage of MAUs, as measures of user engagement.

Note: For purposes of reporting DAUs, MAUs, and ARPU by geographic region, Europe includes all users in Russia and Turkey and Rest of World includes all users in Africa, Latin America, and the Middle East.

Worldwide DAUs increased 17% to 1.13 billion on average during June 2016 from 968 million during June 2015. We experienced growth in DAUs across major markets, including India, Brazil, and the United States. Overall growth in DAUs was driven by increased mobile usage of Facebook, and the number of DAUs accessing Facebook on personal computers decreased in June 2016, compared to the same period in 2015. We believe that use of Facebook through personal computers will continue to decline.

- Mobile DAUs. We define a mobile DAU as a user who accessed Facebook via a mobile application or via mobile versions of our website such as m.facebook.com, whether on a mobile phone or tablet, or used our Messenger mobile application (and is also a registered Facebook user) on a given day. We define a mobile-only DAU as a user who accessed Facebook solely through mobile applications or mobile versions of our website on a given day, whereas a mobile DAU may have also accessed Facebook on a personal computer on that day.

Worldwide mobile DAUs increased 22% to 1.03 billion on average during June 2016 from 844 million during June 2015. In all regions, an increasing number of our DAUs accessed Facebook through mobile devices on average during June 2016, as compared to the same period during 2015, with users in India, Brazil, and the United States representing key sources of mobile DAU growth on average during June 2016. On average during June 2016, there were 885 million mobile-only DAUs, increasing 29% from 688 million mobile-only DAUs during the same period in 2015. The remaining mobile DAUs accessed Facebook from both mobile devices and personal computers. We anticipate that growth in mobile users will continue to be the driver of our user growth for the foreseeable future.

- Monthly Active Users (MAUs). We define a monthly active user as a registered Facebook user who logged in and visited Facebook through our website or a mobile device, or used our Messenger application (and is also a registered Facebook user), in the last 30 days as of the date of measurement. MAUs are a measure of the size of our global active user community.

As of June 30, 2016, we had 1.71 billion MAUs, an increase of 15% from June 30, 2015. Users in India, Indonesia, and the United States represented key sources of growth in the second quarter of 2016, relative to the same period in 2015. Overall growth in MAUs was driven by increased mobile usage of Facebook, and the number of MAUs accessing Facebook on personal computers decreased in June 2016, compared to the same period in 2015. We believe that use of Facebook through personal computers will continue to decline.

- Mobile MAUs. We define a mobile MAU as a user who accessed Facebook via a mobile application or via mobile versions of our website such as m.facebook.com, whether on a mobile phone or tablet, or used our Messenger mobile application (and is also a registered Facebook user) during the period of measurement. We define a mobile-only MAU as a user who accessed Facebook solely through mobile applications or mobile versions of our website during the period of measurement, whereas a mobile MAU may have also accessed Facebook on a personal computer during the period of measurement.

Worldwide mobile MAUs increased 20% to 1.57 billion as of June 30, 2016 from 1.31 billion as of June 30, 2015. In all regions, an increasing number of our MAUs accessed Facebook through mobile devices in the second quarter of 2016, as compared to the same period in 2015, with users in India, the United States, and Brazil representing key sources of mobile MAU growth in the second quarter of 2016. There were 967 million mobile-only MAUs as of June 30, 2016, increasing 48% from 655 million mobile-only MAUs during the same period in 2015. The remaining 607 million mobile MAUs accessed Facebook from both mobile devices and personal computers during June 2016. We anticipate that growth in mobile users will continue to be the driver of our user growth for the foreseeable future.

Trends in Our Monetization by User Geography

We calculate our revenue by user geography based on our estimate of the geography in which ad impressions are delivered, virtual and digital goods are purchased, or virtual reality platform devices are shipped. We define ARPU as our total revenue in a given geography during a given quarter, divided by the average of the number of MAUs in the geography at the beginning and end of the quarter. While ARPU includes all sources of revenue, the number of MAUs used in this calculation only includes users of Facebook and Messenger as described in the definition of MAU above.

The geography of our users affects our revenue and financial results because we currently monetize users in different geographies at different average rates. Our revenue and ARPU in regions such as United States & Canada and Europe are relatively higher primarily due to the size and maturity of those online and mobile advertising markets. For example, ARPU in the second quarter of 2016 in the United States & Canada region was more than eight times higher than in the Asia-Pacific region.

Note: Our revenue by user geography in the charts above is geographically apportioned based on our estimation of the geographic location of our users when they perform a revenue-generating activity. This allocation differs from our revenue by geography disclosure in our condensed consolidated financial statements where revenue is geographically apportioned based on the location of the marketer or developer. 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 for all regions were adjusted to reflect this reclassification.

During the second quarter of 2016, worldwide ARPU was $3.82, an increase of 38% from the second quarter of 2015. Over this period, ARPU increased by 54% in United States & Canada, 40% in Europe, 37% in Asia-Pacific, and 26% in Rest of World. In addition, user growth was more rapid in geographies with relatively lower ARPU, such as Asia-Pacific and Rest of World. We expect that user growth in the future will be primarily concentrated in those regions where ARPU is relatively lower, such that worldwide ARPU may continue to increase at a slower rate relative to ARPU in any geographic region, or potentially decrease even if ARPU increases in each geographic region.

Components of Results of Operations
Revenue
Advertising. We generate substantially all of our revenue from advertising. Our advertising revenue is generated by displaying ad products on Facebook properties, such as our mobile applications, and third-party affiliated websites or mobile applications. Marketers pay for ad products either directly or through their relationships with advertising agencies, based on the number of clicks made by people, the number of actions taken by people, or the number of impressions delivered. We recognize revenue from the delivery of click-based ads in the period in which a person clicks on the content, and action-based ads in the period in which a person takes the action the marketer contracted for. We recognize revenue from the display of impression-based ads in the contracted period in which the impressions are delivered. Impressions are considered delivered when an ad is displayed to people. The number of ads we show is subject to methodological changes as we continue to evolve our ads business and the structure of our ads products. We calculate price per ad as total ad revenue divided by the number of ads delivered, representing the effective price paid per impression by a marketer regardless of their desired objective such as impression, click, or action. For advertising revenue arrangements where we are not the primary obligor, we recognize revenue on a net basis.
Payments and other fees. We enable Payments from people to purchase virtual and digital goods from our developers. People can transact and make payments on the Facebook website by using debit and credit cards, PayPal, mobile phone payments, gift cards, or other methods. We receive a fee from developers when people make purchases in these applications using our Payments infrastructure. We recognize revenue net of amounts remitted to our developers. We have mandated the use of our Payments infrastructure for game applications on Facebook, and fees related to Payments are generated almost exclusively from games. Our other fees revenue, which has not been significant in recent periods, consists primarily of revenue from the delivery of virtual reality platform devices and related platform sales, and our ad serving and measurement products.
Cost of Revenue and Operating Expenses
Cost of revenue. Our cost of revenue consists primarily of expenses associated with the delivery and distribution of our products. These include expenses related to the operation of our data centers, such as facility and server equipment depreciation, energy and bandwidth costs, and salaries, benefits, and share-based compensation for employees on our operations teams. Cost of revenue also includes credit card and other transaction fees related to processing customer transactions, amortization of intangible assets, costs associated with data partner arrangements, and cost of virtual reality platform device inventory sold.
Research and development. Research and development expenses consist primarily of share-based compensation, salaries, and benefits for employees on our engineering and technical teams who are responsible for building new products as well as improving existing products. We expense all of our research and development costs as they are incurred.
Marketing and sales. Our marketing and sales expenses consist of salaries, benefits, and share-based compensation for our employees engaged in sales, sales support, marketing, business development, and customer service functions. Our marketing and sales expenses also include marketing and promotional expenditures, as well as amortization of intangible assets.
General and administrative. Our general and administrative expenses consist primarily of salaries, benefits, and share-based compensation for certain of our executives as well as our legal, finance, human resources, corporate communications and policy, and other administrative employees. In addition, general and administrative expenses include professional and legal services. General and administrative expenses also include depreciation of property and equipment and amortization of intangible assets we have acquired.