Facebook Inc
Form 10-Q
July 26, 2018
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, 2018
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, smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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	2,411,679,559 shares outstanding as of July 23, 2018
Class B Common Stock $0.000006 par value	475,539,105 shares outstanding as of July 23, 2018

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), monthly active users (MAUs), and average revenue per user (ARPU), 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. In addition, we are continually seeking to improve our estimates of our user base, and such estimates may change due to improvements or changes in our methodology.

We regularly evaluate these metrics to estimate the number of "duplicate" and "false" accounts among our MAUs. A duplicate account is one that a user maintains in addition to his or her principal account. We divide "false" accounts 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. The estimates of duplicate and false accounts are based on an internal review of a limited sample of accounts, and we apply significant judgment in making this determination. For example, to identify duplicate accounts we use data signals such as similar IP addresses or user names, and to identify false accounts we look for names that appear to be fake or other behavior that appears inauthentic to the reviewers. Our estimates may change as our methodologies evolve, including through the application of new data signals or technologies, which may allow us to identify previously undetected duplicate or false accounts and may improve our ability to evaluate a broader population of our users. Duplicate and false accounts are very difficult to measure at our scale, and it is possible that the actual number of duplicate and false accounts may vary significantly from our estimates.

In the fourth quarter of 2017, we estimate that duplicate accounts may have represented approximately 10% of our worldwide MAUs. We believe the percentage of duplicate accounts is meaningfully higher in developing markets such as India, Indonesia, and the Philippines, as compared to more developed markets. In the fourth quarter of 2017, we estimate that false accounts may have represented approximately 3-4% of our worldwide MAUs. Our estimation of false accounts can vary as a result of episodic spikes in the creation of such accounts, which we have seen originate more frequently in specific countries such as Indonesia, Turkey, and Vietnam. From time to time, we may make product changes or take other actions to reduce the number of duplicate or false accounts among our users, which may also reduce our DAU and MAU estimates in a particular period.

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.

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 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.

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. We intend to disclose our estimates of the number of duplicate and false accounts among our MAUs on an annual basis. In addition, our DAU and MAU estimates will differ from estimates published by third parties due to differences in methodology.

The numbers of DAUs and 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, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$11,552	$ 8,079
Marketable securities	30,757	33,632
Accounts receivable, net of allowances of $198 and $189 as of June 30, 2018 and December 31, 2017, respectively	5,590	5,832
Prepaid expenses and other current assets	1,934	1,020
Total current assets	49,833	48,563
Property and equipment, net	18,357	13,721
Intangible assets, net	1,573	1,884
Goodwill	18,263	18,221
Other assets	2,265	2,135
Total assets	$90,291	$ 84,524
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$419	$ 380
Partners payable	440	390
Accrued expenses and other current liabilities	3,720	2,892
Deferred revenue and deposits	91	98
Total current liabilities	4,670	3,760
Other liabilities	6,239	6,417
Total liabilities	10,909	10,177
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.000006 par value; 5,000 million Class A shares authorized, 2,413 million and 2,397 million shares issued and outstanding, as of June 30, 2018 and December 31, 2017, respectively; 4,141 million Class B shares authorized, 478 million and 509 million shares issued and outstanding, as of June 30, 2018 and December 31, 2017, respectively.	—	—
Additional paid-in capital	41,832	40,584
Accumulated other comprehensive loss	(687)	(227)
Retained earnings	38,237	33,990
Total stockholders' equity	79,382	74,347
Total liabilities and stockholders' equity	$90,291	$ 84,524

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,	
	2018	2017	2018	2017
Revenue	$13,231	$9,321	$25,197	$17,353
Costs and expenses:				
Cost of revenue	2,214	1,237	4,141	2,395
Research and development	2,523	1,919	4,761	3,753
Marketing and sales	1,855	1,124	3,450	2,181
General and administrative	776	640	1,532	1,295
Total costs and expenses	7,368	4,920	13,884	9,624
Income from operations	5,863	4,401	11,313	7,729
Interest and other income, net	5	87	165	168
Income before provision for income taxes	5,868	4,488	11,478	7,897
Provision for income taxes	762	594	1,385	938
Net income	$5,106	$3,894	$10,093	$6,959
Less: Net income attributable to participating securities	—	4	1	10
Net income attributable to Class A and Class B common stockholders	$5,106	$3,890	$10,092	$6,949
Earnings per share attributable to Class A and Class B common stockholders:				
Basic	$1.76	$1.34	$3.48	$2.40
Diluted	$1.74	$1.32	$3.43	$2.36
Weighted average shares used to compute earnings per share attributable to Class A and Class B common stockholders:				
Basic	2,895	2,900	2,900	2,895
Diluted	2,930	2,951	2,939	2,950
Share-based compensation expense included in costs and expenses:				
Cost of revenue	$74	$47	$130	$81
Research and development	881	787	1,599	1,457
Marketing and sales	139	120	248	216
General and administrative	92	78	164	145
Total share-based compensation expense	$1,186	$1,032	$2,141	$1,899

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,	
	2018	2017	2018	2017
Net income	$5,106	$3,894	$10,093	$6,959
Other comprehensive income (loss):				
Change in foreign currency translation adjustment, net of tax	(372)	246	(278)	306
Change in unrealized gain/loss on available-for-sale investments and other, net of tax	(21)	10	(182)	27
Comprehensive income	$4,713	$4,150	$9,633	$7,292

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30, 2018	2017
Cash flows from operating activities		
Net income	$10,093	$6,959
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,983	1,400
Share-based compensation	2,141	1,899
Deferred income taxes	54	(58)
Other	18	12
Changes in assets and liabilities:		
Accounts receivable	161	223
Prepaid expenses and other current assets	(898)	(577)
Other assets	(59)	82
Accounts payable	50	(38)
Partners payable	53	(10)
Accrued expenses and other current liabilities	690	157
Deferred revenue and deposits	(4)	(4)
Other liabilities	(124)	373
Net cash provided by operating activities	14,158	10,418
Cash flows from investing activities		
Purchases of property and equipment	(6,272)	(2,715)
Purchases of marketable securities	(8,283)	(14,137)
Sales of marketable securities	8,612	3,998
Maturities of marketable securities	2,338	1,498
Acquisitions of businesses, net of cash acquired, and purchases of intangible assets	(65)	(8)
Other investing activities, net	(1)	(22)
Net cash used in investing activities	(3,671)	(11,386)
Cash flows from financing activities		
Taxes paid related to net share settlement of equity awards	(1,758)	(1,495)
Repurchases of Class A common stock	(5,123)	(378)
Other financing activities, net	7	12
Net cash used in financing activities	(6,874)	(1,861)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(149)	122
Net increase (decrease) in cash, cash equivalents, and restricted cash	3,464	(2,707)
Cash, cash equivalents, and restricted cash at beginning of year	8,204	9,109
Cash, cash equivalents, and restricted cash at end of the period	$11,668	$6,402

Reconciliation of cash, cash equivalents, and restricted cash to the condensed consolidated balance sheets		
Cash and cash equivalents	$11,552	$6,252
Restricted cash, included in prepaid expenses and other current assets	11	59
Restricted cash, included in other assets	105	91
Total cash, cash equivalents, and restricted cash	$11,668	$6,402

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2018	2017
Supplemental cash flow data		
Cash paid during the period for:		
Income taxes, net	$2,281	$1,359
Non-cash investing and financing activities:		
Net change in prepaids and liabilities related to property and equipment additions	$231	$240
Change in unsettled repurchases of Class A common stock	$6	$30

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, 2017.

The condensed consolidated balance sheet as of December 31, 2017 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, 2018.

Use of Estimates

Conformity with GAAP requires the use of estimates and judgments that affect the reported amounts in the 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, commitments and contingencies, fair value of financial instruments, fair value of acquired intangible assets and goodwill, useful lives of intangible assets and property and equipment, leases, 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.

Recently Issued Accounting Pronouncements

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 will adopt the new standard effective January 1, 2019. We have selected a lease accounting system, and our implementation of it is substantially complete. Our evaluation of the use of optional practical expedients is pending upon the issuance of the ASU related to comparative reporting at adoption. While we continue to evaluate the effect of adopting this guidance on our consolidated financial statements and related disclosures, we expect our operating leases, as disclosed in Note 8 — Commitments and Contingencies, will be subject to the new standard. We will recognize right-of-use assets and operating lease liabilities on our consolidated balance sheets upon adoption, which will increase our total assets and liabilities.

In February 2018, the FASB issued Accounting Standards Update No. 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (ASU 2018-02), which allows companies to reclassify stranded tax effects resulting from the 2017 Tax Cuts and Jobs Act (the Tax Act), from accumulated other comprehensive income to retained earnings. The new standard is effective for us beginning January 1, 2019, with early adoption permitted. We are currently evaluating the timing of adopting this guidance but do not expect such adoption to have a material impact on our consolidated financial statements and the related disclosures.

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Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in Accounting Standards Codification (ASC) Topic 605, Revenue Recognition (Topic 605). We adopted Topic 606 as of January 1, 2018 using the modified retrospective transition method applied to those contracts which were not completed as of January 1, 2018. See Revenue Recognition below for further details.

In October 2016, the FASB issued Accounting Standards Update No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers Other than Inventory (ASU 2016-16), which requires companies to recognize the income-tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, rather than when the asset has been sold to an outside party. We adopted the new standard effective January 1, 2018, using the modified retrospective transition approach through a cumulative-effect adjustment to retained earnings as of the effective date, which was not material to our condensed consolidated financial statements.

In November 2016, the FASB issued Accounting Standards Update No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (ASU 2016-18), which requires companies to include amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the statements of cash flows. We adopted the new standard effective January 1, 2018, using the retrospective transition approach. The reclassified restricted cash balances from investing activities to changes in cash, cash equivalents and restricted cash on the condensed consolidated statements of cash flows were not material for all periods presented.

In January 2017, the FASB issued Accounting Standards Update No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business (ASU 2017-01), which revises the definition of a business and provides new guidance in evaluating when a set of transferred assets and activities is a business. We adopted the new standard effective January 1, 2018 on a prospective basis. The new standard did not have a material impact on our condensed consolidated financial statements.

Revenue Recognition

On January 1, 2018, we adopted Topic 606, using the modified retrospective transition method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts have not been adjusted and continue to be reported in accordance with our historic accounting under Topic 605. The impact of adopting the new revenue standard was not material to our condensed consolidated financial statements and there was no adjustment to beginning retained earnings on January 1, 2018.

Under Topic 606, revenue is recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services.

We determine revenue recognition through the following steps:

- identification of the contract, or contracts, with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, we satisfy a performance obligation.

Revenue disaggregated by revenue source for the three and six months ended June 30, 2018 and 2017, consists of the following (in millions). Revenue excludes sales and usage-based taxes where it has been determined that we are acting as a pass-through agent.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017[(1)]	2018	2017[(1)]
Advertising	$13,038	$9,164	$24,833	$17,021

Payments and other fees	193	157	364	332
Total revenue	$13,231	$9,321	$25,197	$17,353

(1) As noted above, prior period amounts have not been adjusted under the modified retrospective method.

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Revenue disaggregated by geography, based on the billing address of our customer (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017(1)	2018	2017(1)
Revenue:				
US & Canada(2)	$5,982	$4,359	$11,424	$8,149
Europe(3)	3,307	2,332	6,334	4,300
Asia-Pacific	2,772	1,806	5,247	3,382
Rest of World (3)	1,170	824	2,192	1,522
Total revenue	$13,231	$9,321	$25,197	$17,353

(1) As noted above, prior period amounts have not been adjusted under the modified retrospective method.

(2) United States revenue was $5.60 billion and $4.05 billion for the three months ended June 30, 2018 and 2017, respectively, and $10.69 billion and $7.57 billion for the six months ended June 30, 2018 and 2017, respectively.

(3) Europe includes Russia and Turkey, and Rest of World includes Africa, Latin America, and the Middle East.

Advertising

Advertising revenue is generated by displaying ad products on Facebook, Instagram, Messenger, 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 impressions delivered or the number of actions, such as clicks, taken by our users.

Revenue is recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. 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 users. We recognize revenue from the delivery of action-based ads in the period in which a user takes the action the marketer contracted for. For advertising revenue arrangements where we are not the principal, we recognize revenue on a net basis.

We may accept a lower consideration than the amount promised per the contract for certain revenue transactions and certain customers may receive cash-based incentives or credits, which are accounted for as variable consideration when estimating the amount of revenue to recognize. We believe that there will not be significant changes to our estimates of variable consideration.

Payments and Other Fees

Payments revenue is comprised of the net fee we receive from developers using our Payments infrastructure.

Other fees revenue, which was not material for all periods presented in our financial statements, consists primarily of revenue from the delivery of virtual reality platform devices, as well as revenue from various other sources.

Revenue is recognized net of applicable sales and other taxes.

Deferred Revenue and Deposits

Deferred revenue consists of billings and payments from marketers in advance of revenue recognition. Deposits relate to unused balances held on behalf of our users. Once this balance is utilized by a user, approximately 70% of this amount would then be payable to the developer and the balance would be recognized as revenue. The decrease in the deferred revenue balance for the six months ended June 30, 2018 was driven by revenue recognized that was included in the deferred revenue balance at the beginning of the period.

Our payment terms vary by the products or services offered. The term between billings and when payment is due is not significant. For certain products or services and customer types, we require payment before the products or services are delivered to the customer.

Deferred revenue and deposits consists of the following (in millions):

	June 30, 2018	December 31, 2017
Deferred revenue	$ 62	$ 68
Deposits	29	30
Total deferred revenue and deposits	$ 91	$ 98

Practical Expedients and Exemptions

We generally expense sales commissions when incurred because the amortization period would have been one year or less. These costs are recorded within sales and marketing expenses.

We do not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed.

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.

RSUs with anti-dilutive effect were excluded from the EPS calculation and they were not material for the three and six months ended June 30, 2018 and 2017, respectively.

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,			
	2018		2017		2018		2017	
	Class A	Class B	Class A	Class B	Class A	Class B	Class A	Class B
Basic EPS:								
Numerator								
Net income	$4,246	$860	$3,177	$717	$8,368	$1,725	$5,673	$1,286
Less: Net income attributable to participating securities	—	—	4	—	1	—	8	2
Net income attributable to common stockholders	$4,246	$860	$3,173	$717	$8,367	$1,725	$5,665	$1,284
Denominator								
Weighted average shares outstanding	2,407	488	2,368	535	2,405	495	2,363	536
Less: Shares subject to repurchase	—	—	2	1	—	—	3	1
Number of shares used for basic EPS computation	2,407	488	2,366	534	2,405	495	2,360	535
Basic EPS	$1.76	$1.76	$1.34	$1.34	$3.48	$3.48	$2.40	$2.40
Diluted EPS:								
Numerator								
Net income attributable to common stockholders	$4,246	$860	$3,173	$717	$8,367	$1,725	$5,665	$1,284
Reallocation of net income attributable to participating securities	—	—	4	—	1	—	10	—
Reallocation of net income as a result of conversion of Class B to Class A common stock	860	—	717	—	1,725	—	1,284	—
Reallocation of net income to Class B common stock	—	(4)	—	(2)	—	(9)	—	(1)
Net income attributable to common stockholders for diluted EPS	$5,106	$856	$3,894	$715	$10,093	$1,716	$6,959	$1,283
Denominator								
Number of shares used for basic EPS computation	2,407	488	2,366	534	2,405	495	2,360	535
Conversion of Class B to Class A common stock	488	—	534	—	495	—	535	—
Weighted average effect of dilutive securities:								
Employee stock options	2	2	4	4	3	3	4	4
RSUs	33	1	45	3	36	2	47	3
Shares subject to repurchase and other	—	—	2	1	—	—	4	2
Number of shares used for diluted EPS computation	2,930	491	2,951	542	2,939	500	2,950	544
Diluted EPS	$1.74	$1.74	$1.32	$1.32	$3.43	$3.43	$2.36	$2.36

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, 2018	December 31, 2017
Cash and cash equivalents:		
Cash	$2,117	$ 2,212
Money market funds	6,676	5,268
U.S. government securities	961	66
U.S. government agency securities	458	25
Certificate of deposits and time deposits	1,340	440
Corporate debt securities	—	68
Total cash and cash equivalents	11,552	8,079
Marketable securities:		
U.S. government securities	12,961	12,766
U.S. government agency securities	8,659	10,944
Corporate debt securities	9,137	9,922
Total marketable securities	30,757	33,632
Total cash and cash equivalents, and marketable securities	$42,309	$ 41,711

The gross unrealized gains or losses on our marketable securities as of June 30, 2018 and December 31, 2017 were not significant. In addition, the gross unrealized loss that had been in a continuous loss position for 12 months or longer was not significant as of June 30, 2018 and December 31, 2017. As of June 30, 2018, 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, 2018
Due in one year	$7,427
Due in one to five years	23,330
Total	$30,757

Note 4. Fair Value Measurement

The following table summarizes our assets measured at fair value and the classification by level of input within the fair value hierarchy (in millions):

Description	June 30, 2018	Fair Value Measurement at Reporting Date Using 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	$6,676	$6,676	$ —	$ —
U.S. government securities	961	961	—	—
U.S. government agency securities	458	458	—	—
Certificate of deposits and time deposits	1,340	—	1,340	—
Marketable securities:				
U.S. government securities	12,961	12,961	—	—
U.S. government agency securities	8,659	8,659	—	—
Corporate debt securities	9,137	—	9,137	—
Total cash equivalents and marketable securities	$40,192	$29,715	$ 10,477	$ —

Description	December 31, 2017	Fair Value Measurement at Reporting Date Using 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	$ 5,268	$5,268	$ —	$ —
U.S. government securities	66	66	—	—
U.S. government agency securities	25	25	—	—
Certificate of deposits and time deposits	440	—	440	—
Corporate debt securities	68	—	68	—
Marketable securities:				
U.S. government securities	12,766	12,766	—	—
U.S. government agency securities	10,944	10,944	—	—
Corporate debt securities	9,922	—	9,922	—
Total cash equivalents and marketable securities	$ 39,499	$29,069	$ 10,430	$ —

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.

Note 5. Property and Equipment

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

	June 30, 2018	December 31, 2017
Land	$844	$ 798
Buildings	5,935	4,909
Leasehold improvements	1,472	959
Network equipment	10,147	7,998
Computer software, office equipment and other	896	681
Construction in progress	4,624	2,992
Total	23,918	18,337
Less: Accumulated depreciation	(5,561)	(4,616)
Property and equipment, net	$18,357	$ 13,721

Construction in progress includes costs related to construction of data centers, network equipment infrastructure to support our data centers around the world, and office buildings. No interest was capitalized during the three and six months ended June 30, 2018 and 2017.

Note 6. Goodwill and Intangible Assets

During the six months ended June 30, 2018, we completed business acquisitions that were not material to our condensed consolidated financial statements, either individually or in the aggregate. Accordingly, pro forma historical results of operations related to these business acquisitions during the six months ended June 30, 2018 have not been presented. We have included the financial results of these business acquisitions in our condensed consolidated financial statements from their respective dates of acquisition.

The changes in the carrying amount of goodwill for the six months ended June 30, 2018 are as follows (in millions):

Balance as of December 31, 2017	$18,221
Goodwill acquired	47
Effect of currency translation adjustment	(5)
Balance as of June 30, 2018	$18,263

Intangible assets consist of the following (in millions):

		June 30, 2018			December 31, 2017		
	Weighted-Average Remaining Useful Lives (in years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Acquired users	3.3	$2,056	$ (1,116)	$ 940	$2,056	$ (971)	$ 1,085
Acquired technology	1.4	988	(796)	192	972	(711)	261
Acquired patents	5.4	785	(532)	253	785	(499)	286
Trade names	1.8	629	(461)	168	629	(406)	223
Other	2.4	162	(142				