

Google Inc.		
CONSOLIDATED BALANCE SHEETS		
(In millions, except share and par value amounts which are reflected in thousands, and par value per share amounts)		
	As of December 31, 2013	As of March 31, 2014
		(unaudited)
Assets		
Current assets:		
Cash and cash equivalents	\$18,898	\$16,639
Marketable securities	39,819	42,740
Total cash, cash equivalents, and marketable securities (including securities loaned of \$5,059 and \$4,405)	58,717	59,379
Accounts receivable, net of allowance of \$631 and \$262	8,882	7,827
Inventories	426	337
Receivable under reverse repurchase agreements	100	50
Deferred income taxes, net	1,526	1,166
Income taxes receivable, net	408	544
Prepaid revenue share, expenses and other assets	2,827	2,138
Assets held for sale	0	3,873
Total current assets	72,886	75,314
Prepaid revenue share, expenses and other assets, non-current	1,976	1,718
Non-marketable equity investments	1,976	2,123
Property and equipment, net	16,524	17,877
Intangible assets, net	6,066	5,317
Goodwill	11,492	14,177
Total assets	\$110,920	\$116,526
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$2,453	\$1,623
Short-term debt	3,009	3,009
Accrued compensation and benefits	2,502	1,531
Accrued expenses and other current liabilities	3,755	3,305
Accrued revenue share	1,729	1,674
Securities lending payable	1,374	2,153
Deferred revenue	1,062	947
Income taxes payable, net	24	0
Liabilities held for sale	0	2,028
Total current liabilities	15,908	16,270
Long-term debt	2,236	3,234

Deferred revenue, non-current	139	103
Income taxes payable, non-current	2,638	2,826
Deferred income taxes, net, non-current	1,947	1,848
Other long-term liabilities	743	534
Stockholders' equity:		
Convertible preferred stock, \$0.001 par value per share, 100,000 shares authorized; no shares issued and outstanding	0	0
Class A and Class B common stock, and Class C capital stock and additional paid-in capital, \$0.001 par value per share: 15,000,000 shares authorized (Class A 9,000,000, Class B 3,000,000, Class C 3,000,000); 671,664 (Class A 279,325, Class B 56,507, Class C 335,832) and par value of \$672 (Class A \$279, Class B \$57, Class C \$336) and 674,462 (Class A 281,557, Class B 55,674, Class C 337,231) and par value of \$674 (Class A \$281, Class B \$56, Class C \$337) shares issued and outstanding	25,922	26,652
Accumulated other comprehensive income	125	345
Retained earnings	61,262	64,714
Total stockholders' equity	87,309	91,711
Total liabilities and stockholders' equity	\$110,920	\$116,526

Google Inc.

CONSOLIDATED STATEMENTS OF INCOME

(In millions, except share amounts which are reflected in thousands and per share amounts)

	Three Months Ended	
	March 31,	
	2013	2014
	(unaudited)	
Revenues	\$12,951	\$15,420
Costs and expenses:		
Cost of revenues (1)	5,136	5,961
Research and development (1)	1,617	2,126
Sales and marketing (1)	1,435	1,729
General and administrative (1)	1,015	1,489
Total costs and expenses	9,203	11,305
Income from operations	3,748	4,115
Interest and other income, net	134	357
Income from continuing operations before income taxes	3,882	4,472
Provision for income taxes	354	822
Net income from continuing operations	3,528	3,650
Net loss from discontinued operations (1)	(182)	(198)
Net income	\$3,346	\$3,452
Net income (loss) per share - basic:		
Continuing operations	\$5.34	\$5.42
Discontinued operations	(0.28)	(0.29)
Net income (loss) per share - basic	\$5.06	\$5.13
Net income (loss) per share - diluted:		
Continuing operations	\$5.24	\$5.33
Discontinued operations	(0.27)	(0.29)
Net income (loss) per share - diluted	\$4.97	\$5.04
Shares used in per share calculation - basic	660,908	672,587
Shares used in per share calculation - diluted	673,326	685,212
(1) Includes stock-based compensation expense as follows:		
Cost of revenues	\$99	\$95
Research and development	338	456
Sales and marketing	118	147

General and administrative	100	141
Discontinued operations	53	48
Total stock-based compensation expense	\$708	\$887

Google Inc.		
CONSOLIDATED STATEMENTS OF CASH FLOWS		
(In millions)		
	Three Months Ended	
	March 31,	
	2013	2014
	(unaudited)	
Operating activities		
Net income	\$3,346	\$3,452
Adjustments:		
Depreciation expense and loss on disposal of property and equipment	584	816
Amortization of intangible and other assets	315	270
Stock-based compensation expense	708	887
Excess tax benefits from stock-based award activities	(94)	(155)
Deferred income taxes	202	144
Gain on equity interest	0	(103)
Gain on sale of non-marketable equity investments	0	(117)
Other	37	(14)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	256	267
Income taxes, net	(335)	201
Inventories	(142)	26
Prepaid revenue share, expenses and other assets	(212)	(334)
Accounts payable	87	177
Accrued expenses and other liabilities	(1,059)	(1,079)
Accrued revenue share	(27)	(70)
Deferred revenue	(33)	23
Net cash provided by operating activities	3,633	4,391
Investing activities		
Purchases of property and equipment	(1,203)	(2,345)
Purchases of marketable securities	(7,834)	(12,082)
Maturities and sales of marketable securities	6,319	9,406
Investments in non-marketable equity investments	(36)	(168)
Cash collateral related to securities lending	564	779
Investments in reverse repurchase agreements	0	50

Acquisitions, net of cash acquired, and purchases of intangibles and other assets	(251)	(2,947)
Net cash used in investing activities	(2,441)	(7,307)
Financing activities		
Net payments related to stock-based award activities	(210)	(326)
Excess tax benefits from stock-based award activities	94	155
Proceeds from issuance of debt, net of costs	2,922	3,416
Repayments of debt	(3,323)	(2,423)
Net cash (used in) provided by financing activities	(517)	822
Effect of exchange rate changes on cash and cash equivalents	(78)	(5)
Net increase (decrease) in cash and cash equivalents	597	(2,099)
Cash and cash equivalents at beginning of period	14,778	18,898
Reclassification to assets held for sale	0	(160)
Cash and cash equivalents at end of period	\$15,375	\$16,639

Reconciliations of non-GAAP consolidated results of operations to the nearest comparable GAAP measures

The following table presents certain non-GAAP consolidated results before certain items (in millions, except share amounts which are reflected in thousands and per share amounts, unaudited):

	Three months ended March 31, 2013			Three Months Ended March 31, 2014		
	GAAP	Adjustment	Non-GAAP	GAAP	Adjustment	Non-GAAP
Revenues	\$12,951	0	\$12,951	\$15,420	0	\$15,420
Costs and expenses:						
Cost of revenues	5,136	\$(99) (b)	5,037	5,961	\$(95) (b)	5,866
Research and development	1,617	(338) (b)	1,279	2,126	(456) (b)	1,670
Sales and marketing	1,435	(118) (b)	1,317	1,729	(147) (b)	1,582
General and administrative	1,015	(100) (b)	915	1,489	(141) (b)	1,348
Total costs and expenses	9,203	(655)	8,548	11,305	(839)	10,466
Income from operations	3,748	655	4,403	4,115	839	4,954
Operating margin (a)	28.9%		34.0%	26.7%		32.1%
Interest and other income, net	134	0	134	357	0	357
Income from continuing operations before income taxes	3,882	655	4,537	4,472	839	5,311
Provision for income taxes	354	141 (c)	495	822	190 (c)	1,012
Net income from continuing operations	3,528	514	4,042	3,650	649	4,299
Net loss from discontinued operations	(182)	182 (d)	0	(198)	198 (d)	0
Net income	\$3,346	\$696	\$4,042	\$3,452	\$847	\$4,299
Net income per share - diluted	\$4.97		\$6.00	5.04		6.27
Shares used in per share calculation - diluted	673,326		673,326	685,212		685,212

Operating margin is defined as consolidated income from operations divided by revenues.

(a) Non-GAAP operating margin is defined as non-GAAP consolidated income from operations divided by revenues.

(b) To eliminate stock-based compensation expense.

(c) To eliminate income tax effects related to stock-based compensation expense.

(d) To eliminate net loss from discontinued operations.

Reconciliation from net cash provided by operating activities to free cash flow (in millions, unaudited):	
	Three Months Ended March 31, 2014
Net cash provided by operating activities	\$4,391
Less purchases of property and equipment	(2,345)
Free cash flow	\$2,046
Net cash used in investing activities*	(\$7,307)
Net cash provided by financing activities	\$822
*Includes purchases of property and equipment.	

Reconciliation from GAAP international revenues to non-GAAP international revenues (in millions, unaudited):

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2014
	(using Q1'13's FX rates)	(using Q4'13's FX rates)
United Kingdom revenues (GAAP)	\$1,583	\$1,583
Exclude foreign exchange impact on Q1'14 revenues using Q1'13 rates	(71)	NA
Exclude foreign exchange impact on Q1'14 revenues using Q4'13 rates	NA	(36)
Exclude hedging gains recognized in Q1'14	0	0
United Kingdom revenues excluding foreign exchange and hedging impact (Non-GAAP)	\$1,512	\$1,547
Rest of the world revenues (GAAP)	\$7,181	\$7,181
Exclude foreign exchange impact on Q1'14 revenues using Q1'13 rates	234	NA
Exclude foreign exchange impact on Q1'14 revenues using Q4'13 rates	NA	86
Exclude hedging gains recognized in Q1'14	(8)	(8)
Rest of the world revenues excluding foreign exchange and hedging impact (Non-GAAP)	\$7,407	\$7,259

The following table presents our revenues by revenue source (in millions):			
	Three Months Ended		
	March 31,		
	2013		2014
	(unaudited)		
Advertising revenues:			
Websites	\$8,640		\$10,469
Network Members' websites	3,262		3,397
Total advertising revenues	11,902		13,866
Other revenues	1,049		1,554
Total revenues	\$12,951		\$15,420
The following table presents our revenues, by revenue source, as a percentage of total revenues:			
	Three Months Ended		
	March 31,		
	2013		2014
	(unaudited)		
Advertising revenues:			
Websites	67%		68%
Network Members' websites	25%		22%
Total advertising revenues	92%		90%
Other revenues	8%		10%
Total revenues	100%		100%