

**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 June 30, 2014
		(unaudited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 18,898	\$ 19,620
Marketable securities	39,819	41,584
Total cash, cash equivalents, and marketable securities (including securities loaned of \$5,059 and \$5,697)	58,717	61,204
Accounts receivable, net of allowance of \$631 and \$269	8,882	8,321
Inventories	426	293
Receivable under reverse repurchase agreements	100	100
Deferred income taxes, net	1,526	1,158
Income taxes receivable, net	408	1,118
Prepaid revenue share, expenses and other assets	2,827	2,043
Assets held for sale	0	3,668
Total current assets	72,886	77,905
Prepaid revenue share, expenses and other assets, non-current	1,976	1,982
Non-marketable equity investments	1,976	2,415
Property and equipment, net	16,524	19,486
Intangible assets, net	6,066	5,234
Goodwill	11,492	14,586
Total assets	<u>\$ 110,920</u>	<u>\$ 121,608</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 2,453	\$ 1,345
Short-term debt	3,009	2,009
Accrued compensation and benefits	2,502	2,102
Accrued expenses and other current liabilities	3,755	3,683
Accrued revenue share	1,729	1,686
Securities lending payable	1,374	3,086
Deferred revenue	1,062	882
Income taxes payable, net	24	0
Liabilities held for sale	0	2,304
Total current liabilities	15,908	17,097
Long-term debt	2,236	3,232
Deferred revenue, non-current	139	93
Income taxes payable, non-current	2,638	3,002
Deferred income taxes, net, non-current	1,947	1,625
Other long-term liabilities	743	810
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 675,905 (Class A 283,014, Class B 54,925, Class C 337,966) and par value of \$676 (Class A \$283, Class B \$55, Class C \$338) shares issued and outstanding	25,922	27,111
Accumulated other comprehensive income	125	502
Retained earnings	61,262	68,136
Total stockholders' equity	<u>87,309</u>	<u>95,749</u>
Total liabilities and stockholders' equity	<u><u>\$ 110,920</u></u>	<u><u>\$ 121,608</u></u>

**Google Inc.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(In millions, except share amounts which are reflected in thousands and per share amounts)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2014	2013	2014
	(unaudited)			
Revenues	\$ 13,107	\$ 15,955	\$ 26,058	\$ 31,375
Costs and expenses:				
Cost of revenues <sup>(1)</sup>	5,195	6,114	10,331	12,075
Research and development <sup>(1)</sup>	1,766	2,238	3,383	4,364
Sales and marketing <sup>(1)</sup>	1,583	1,941	3,018	3,670
General and administrative <sup>(1)</sup>	1,098	1,404	2,113	2,893
Total costs and expenses	9,642	11,697	18,845	23,002
Income from operations	3,465	4,258	7,213	8,373
Interest and other income, net	236	145	370	502
Income from continuing operations before income taxes	3,701	4,403	7,583	8,875
Provision for income taxes	927	913	1,281	1,735
Net income from continuing operations	2,774	3,490	6,302	7,140
Net income (loss) from discontinued operations <sup>(1)</sup>	454	(68)	272	(266)
Net income	\$ 3,228	\$ 3,422	\$ 6,574	\$ 6,874
Net income (loss) per share - basic:				
Continuing operations	\$ 4.17	\$ 5.17	\$ 9.51	\$ 10.59
Discontinued operations	0.68	(0.10)	0.41	(0.39)
Net income per share - basic	\$ 4.85	\$ 5.07	\$ 9.92	\$ 10.20
Net income (loss) per share - diluted:				
Continuing operations	\$ 4.10	\$ 5.09	\$ 9.34	\$ 10.41
Discontinued operations	0.67	(0.10)	0.40	(0.39)
Net income per share - diluted	\$ 4.77	\$ 4.99	\$ 9.74	\$ 10.02
Shares used in per share calculation - basic	664,960	675,115	662,934	673,851
Shares used in per share calculation - diluted	676,674	686,363	675,000	685,788

<sup>(1)</sup> Includes stock-based compensation expense as follows:

Cost of revenues	\$ 110	\$ 100	\$ 209	\$ 195
Research and development	401	447	739	903
Sales and marketing	125	158	243	305
General and administrative	107	175	207	316
Discontinued operations	104	35	157	83
Total stock-based compensation expense	\$ 847	\$ 915	\$ 1,555	\$ 1,802

**Google Inc.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(In millions)**

	Three Months Ended		Six Months Ended					
	June 30,		June 30,					
	2013	2014	2013	2014				
	(unaudited)		(unaudited)					
Operating activities								
Net income	\$	3,228	\$	3,422	\$	6,574	\$	6,874
Adjustments:								
Depreciation expense and loss on disposal of property and equipment		747		813		1,331		1,629
Amortization of intangible and other assets		283		266		598		536
Stock-based compensation expense		847		915		1,555		1,802
Excess tax benefits from stock-based award activities		(104)		(137)		(198)		(292)
Deferred income taxes		63		(282)		265		(138)
Gain on divestiture of businesses		(716)		0		(690)		0
Gain on equity interest		0		(23)		0		(126)
Gain on sale of non-marketable equity investments		0		(21)		0		(138)
Other		(65)		4		(54)		(10)
Changes in assets and liabilities, net of effects of acquisitions:								
Accounts receivable		(194)		(721)		62		(454)
Income taxes, net		179		(263)		(156)		(62)
Inventories		(16)		(6)		(158)		20
Prepaid revenue share, expenses and other assets		(136)		833		(348)		499
Accounts payable		(159)		(163)		(72)		14
Accrued expenses and other liabilities		696		1,011		(363)		(68)
Accrued revenue share		35		2		8		(68)
Deferred revenue		17		(23)		(16)		0
Net cash provided by operating activities		4,705		5,627		8,338		10,018
Investing activities								
Purchases of property and equipment		(1,611)		(2,646)		(2,814)		(4,991)
Purchases of marketable securities		(14,948)		(12,775)		(22,782)		(24,857)
Maturities and sales of marketable securities		10,687		14,199		17,006		23,605
Investments in non-marketable equity investments		(136)		(299)		(172)		(467)
Cash collateral related to securities lending		974		934		1,538		1,713
Investments in reverse repurchase agreements		(70)		(50)		(70)		0
Proceeds from divestiture of businesses		2,313		0		2,351		0
Acquisitions, net of cash acquired, and purchases of intangibles and other assets		(1,012)		(543)		(1,301)		(3,490)
Net cash used in investing activities		(3,803)		(1,180)		(6,244)		(8,487)
Financing activities								
Net payments related to stock-based award activities		(58)		(595)		(268)		(921)
Excess tax benefits from stock-based award activities		104		137		198		292
Proceeds from issuance of debt, net of costs		2,729		2,877		5,651		6,293
Repayments of debt		(2,880)		(3,881)		(6,203)		(6,304)
Net cash used in financing activities		(105)		(1,462)		(622)		(640)
Effect of exchange rate changes on cash and cash equivalents		(8)		(4)		(86)		(9)
Net increase in cash and cash equivalents		789		2,981		1,386		882
Cash and cash equivalents at beginning of period		15,375		16,639		14,778		18,898
Reclassification to assets held for sale		0		0		0		(160)
Cash and cash equivalents at end of period	\$	16,164	\$	19,620	\$	16,164	\$	19,620

## 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 June 30, 2013					Three Months Ended June 30, 2014				
	GAAP Actual	Operating Margin (a)	Adjustments	Non-GAAP Results	Non-GAAP Operating Margin (e)	GAAP Actual	Operating Margin (a)	Adjustments	Non-GAAP Results	Non-GAAP Operating Margin (e)
			\$ 743 (b)					\$ 880 (f)		
Income from operations	\$ 3,465	26.4%	\$ 743	\$ 4,208	32.1%	\$ 4,258	26.7%	\$ 880	\$ 5,138	32.2%
			\$ 743 (b)					\$ 880 (f)		
			(160) (c)					(195) (c)		
			(454) (d)					68 (d)		
Net income	\$ 3,228		\$ 129	\$ 3,357		\$ 3,422		\$ 753	\$ 4,175	
Net income per share - diluted	\$ 4.77			\$ 4.96		\$ 4.99			\$ 6.08	
Shares used in per share calculation - diluted	676,674			676,674		686,363			686,363	

(a) Operating margin is defined as income from operations divided by revenues.

(b) To eliminate \$743 million of stock-based compensation expense recorded in the second quarter of 2013.

(c) To eliminate income tax effects related to expenses noted in (b) and (f).

(d) To eliminate net income (loss) from discontinued operations.

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

(f) To eliminate \$880 million of stock-based compensation expense recorded in the second quarter of 2014.

**Reconciliation from net cash provided by operating activities to free cash flow (in millions, unaudited):**

	<b>Three Months Ended June 30, 2014</b>	
<b>Net cash provided by operating activities</b>	<b>\$</b>	<b>5,627</b>
Less purchases of property and equipment		(2,646)
<b>Free cash flow</b>	<b>\$</b>	<b>2,981</b>
<b>Net cash used in investing activities <sup>(a)</sup></b>	<b>\$</b>	<b>(1,180)</b>
<b>Net cash used in financing activities</b>	<b>\$</b>	<b>(1,462)</b>

<sup>(a)</sup> Includes purchases of property and equipment.

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

	Three Months Ended June 30, 2014 <i>(using Q2'13's FX rates)</i>	Three Months Ended June 30, 2014 <i>(using Q1'14's FX rates)</i>
<b>United Kingdom revenues (GAAP)</b>	\$ 1,616	\$ 1,616
Exclude foreign exchange impact on Q2'14 revenues using Q2'13 rates	(124)	N/A
Exclude foreign exchange impact on Q2'14 revenues using Q1'14 rates	N/A	(16)
Exclude hedging gains recognized in Q2'14	0	0
<b>United Kingdom revenues excluding foreign exchange and hedging impact (Non-GAAP)</b>	<u>\$ 1,492</u>	<u>\$ 1,600</u>
<b>Rest of the world revenues (GAAP)</b>	\$ 7,709	\$ 7,709
Exclude foreign exchange impact on Q2'14 revenues using Q2'13 rates	4	N/A
Exclude foreign exchange impact on Q2'14 revenues using Q1'14 rates	N/A	(61)
Exclude hedging gains recognized in Q2'14	(6)	(6)
<b>Rest of the world revenues excluding foreign exchange and hedging impact (Non-GAAP)</b>	<u>\$ 7,707</u>	<u>\$ 7,642</u>



The following table presents our revenues by revenue source (in millions):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2014	2013	2014
	(unaudited)			
Advertising revenues:				
Websites	\$ 8,868	\$ 10,935	\$ 17,508	\$ 21,404
Network Members' websites	3,193	3,424	6,455	6,821
Total advertising revenues	12,061	14,359	23,963	28,225
Other revenues	1,046	1,596	2,095	3,150
Total revenues	\$ 13,107	\$ 15,955	\$ 26,058	\$ 31,375

The following table presents our revenues, by revenue source, as a percentage of total revenues:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2014	2013	2014
	(unaudited)			
Advertising revenues:				
Websites	68%	69%	67%	68%
Network Members' websites	24%	21%	25%	22%
Total advertising revenues	92%	90%	92%	90%
Other revenues	8%	10%	8%	10%
Total revenues	100%	100%	100%	100%