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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

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**FORM 10-Q**

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(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2023  
OR

**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: **001-37580**

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# Alphabet Inc.

(Exact name of registrant as specified in its charter)

**Delaware**

**61-1767919**

(State or other jurisdiction of incorporation or  
organization)

(I.R.S. Employer Identification Number)

**1600 Amphitheatre Parkway  
Mountain View, CA 94043**

(Address of principal executive offices, including zip code)

**(650) 253-0000**

(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
<b>Class A Common Stock, \$0.001 par value</b>	<b>GOOGL</b>	<b>Nasdaq Stock Market LLC (Nasdaq Global Select Market)</b>
<b>Class C Capital Stock, \$0.001 par value</b>	<b>GOOG</b>	<b>Nasdaq Stock Market LLC (Nasdaq Global Select Market)</b>

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 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  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

As of October 17, 2023, there were 5,918 million shares of Alphabet's Class A stock outstanding, 873 million shares of Alphabet's Class B stock outstanding, and 5,725 million shares of Alphabet's Class C stock outstanding.

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[Table of Contents](#)

Alphabet Inc.

**Alphabet Inc.  
Form 10-Q  
For the Quarterly Period Ended September 30, 2023**

## **TABLE OF CONTENTS**

Note About Forward-Looking Statements**PART I. FINANCIAL INFORMATION**

Item 1	<u>Financial Statements</u>	<u>5</u>
	<u>Consolidated Balance Sheets - December 31, 2022 and September 30, 2023</u>	<u>5</u>
	<u>Consolidated Statements of Income - Three and Nine Months Ended September 30, 2022 and 2023</u>	<u>6</u>
	<u>Consolidated Statements of Comprehensive Income - Three and Nine Months Ended September 30, 2022 and 2023</u>	<u>7</u>
	<u>Consolidated Statements of Stockholders' Equity - Three and Nine Months Ended September 30, 2022 and 2023</u>	<u>8</u>
	<u>Consolidated Statements of Cash Flows - Nine Months Ended September 30, 2022 and 2023</u>	<u>10</u>
	<u>Notes to Consolidated Financial Statements</u>	<u>11</u>
Item 2	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>34</u>
Item 3	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>49</u>
Item 4	<u>Controls and Procedures</u>	<u>49</u>

**PART II. OTHER INFORMATION**

Item 1	<u>Legal Proceedings</u>	<u>51</u>
Item 1A	<u>Risk Factors</u>	<u>51</u>

Item 2	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	51
Item 5	<u>Other Information</u>	51
Item 6	<u>Exhibits</u>	52
	<u>Signatures</u>	53

## 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. These include, among other things, statements regarding:

- the growth of our business and revenues and our expectations about the factors that influence our success and trends in our business;
- fluctuations in our revenues and margins and various factors contributing to such fluctuations;
- our expectation that the continuing shift from an offline to online world will continue to benefit our business;
- our expectation that the portion of our revenues that we derive from non-advertising revenues will continue to increase and may affect our margins;
- our expectation that our traffic acquisition costs (TAC) and the associated TAC rate will fluctuate, which could affect our overall margins;
- our expectation that our monetization trends will fluctuate, which could affect our revenues and margins;

- fluctuations in our revenues, as well as the change in paid clicks and cost-per-click and the change in impressions and cost-per-impression, and various factors contributing to such fluctuations;
- our expectation that we will continue to periodically review, refine, and update our methodologies for monitoring, gathering, and counting the number of paid clicks and impressions;
- our expectation that our results will be affected by our performance in international markets as users in developing economies increasingly come online;
- our expectation that our foreign exchange risk management program will not fully offset our net exposure to fluctuations in foreign currency exchange rates;
- the expected variability of gains and losses related to hedging activities under our foreign exchange risk management program;
- the amount and timing of revenue recognition from customer contracts with commitments for performance obligations, including our estimate of the remaining amount of commitments and when we expect to recognize revenue;
- fluctuations in our capital expenditures;
- our expectation that we will continue to invest in our technical infrastructure;
- our plans to continue to invest in new businesses, products, services and technologies, systems, land and buildings for data centers, and infrastructure, as well as to continue to invest in acquisitions and strategic investments;

- our pace of hiring and our plans to provide competitive compensation programs;
- our expectation that our cost of revenues, research and development (R&D) expenses, sales and marketing expenses, and general and administrative expenses may increase in amount and/or may increase as a percentage of revenues and may be affected by a number of factors;
- estimates of our future compensation expenses;
- our expectation that our other income (expense), net (OI&E), will fluctuate in the future, as it is largely driven by market dynamics;
- fluctuations in our effective tax rate;
- seasonal fluctuations in internet usage and advertiser expenditures, underlying business trends such as traditional retail seasonality, which are likely to cause fluctuations in our quarterly results;
- the sufficiency of our sources of funding;
- our potential exposure in connection with new and pending investigations, proceedings, and other contingencies, including the possibility that certain legal proceedings to which we are a party could harm our business, financial condition, and operating results;

- our expectation that we will continue to face heightened regulatory scrutiny, and the sufficiency and timing of our proposed remedies in response to decisions from the European Commission (EC) and other regulators and governmental entities;
- the expected timing, amount, and effect of Alphabet Inc.'s share repurchases;
- our long-term sustainability and diversity goals;
- the unpredictability of the ongoing broader economic effects resulting from the war in Ukraine on our future financial results;
- the expected financial effect of our announced workforce reduction and office space optimization;
- our expectation that the change in estimated useful lives of servers and certain network equipment will have a favorable effect on our 2023 operating results;

as well as other statements regarding our future operations, financial condition and prospects, and business strategies. Forward-looking statements may appear throughout this report and other documents we file with the Securities and Exchange Commission (SEC), including without limitation, the following sections: Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Quarterly Report on Form 10-Q and Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended

December 31, 2022. Forward-looking statements generally can be identified by words such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," "projects," "will be," "will continue," "may," "could," "will likely result," and similar expressions. These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties, which could cause our actual results to differ materially from those reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Quarterly Report on Form 10-Q, the risks discussed in Part I, Item 1A, "Risk Factors" and the trends discussed in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, and those discussed in other documents we file with the SEC. 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.

As used herein, "Alphabet," "the company," "we," "us," "our," and similar terms include Alphabet Inc. and its subsidiaries, unless the context indicates otherwise.

"Alphabet," "Google," and other trademarks of ours appearing in this report are our property. We do not intend our use or display of other companies' trade names or trademarks to imply an endorsement or sponsorship of us by such companies, or any relationship with any of these companies.



[Table of Contents](#)

Alphabet Inc.

**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**Alphabet Inc.  
CONSOLIDATED BALANCE SHEETS**

(in millions, except par value per share amounts)

	As of December 31, 2022	As of September 30, 2023		
	(unaudited)			
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 21,879	\$ 30,702		
Marketable securities	<u>91,883</u>	<u>89,233</u>		
Total cash, cash equivalents, and marketable securities	113,762	119,935		
Accounts receivable, net	40,258	41,020		
Inventory	2,670	2,957		
Other current assets	<u>8,105</u>	<u>12,398</u>		
Total current assets	164,795	176,310		
Non-marketable securities	30,492	30,907		
Deferred income taxes	5,261	10,983		
Property and equipment, net	112,668	125,705		
Operating lease assets	14,381	14,199		
Intangible assets, net	2,084	1,833		
Goodwill	28,960	29,146		
Other non-current assets	<u>6,623</u>	<u>7,628</u>		
Total assets	<u>\$ 365,264</u>	<u>\$ 396,711</u>		
<b>Liabilities and Stockholders' Equity</b>				
Current liabilities:				
Accounts payable	\$ 5,128	\$ 5,803		

	\$ , --	\$ , --
Accrued compensation and benefits	14,028	12,562
Accrued expenses and other current liabilities	37,866	55,602
Accrued revenue share	8,370	8,025
Deferred revenue	3,908	4,303
<b>Total current liabilities</b>	<b>69,300</b>	<b>86,295</b>
Long-term debt	14,701	13,781
Deferred revenue, non-current	599	884
Income taxes payable, non-current	9,258	8,038
Deferred income taxes	514	528
Operating lease liabilities	12,501	12,550
Other long-term liabilities	2,247	1,433
<b>Total liabilities</b>	<b>109,120</b>	<b>123,509</b>

### Commitments and contingencies (Note 9)

### Stockholders' equity:

Preferred stock, \$0.001 par value per share, 100 shares authorized; no shares issued and outstanding	0	0
Class A, Class B, and Class C stock and additional paid-in capital, \$0.001 par value per share: 300,000 shares authorized (Class A 180,000, Class B 60,000, Class C 60,000); 12,849 (Class A 5,964, Class B 883, Class C 6,002) and 12,541 (Class A 5,922, Class B 874, Class C 5,745) shares issued and outstanding	68,184	74,591
Accumulated other comprehensive income (loss)	(7,603)	(7,036)
<b>Retained earnings</b>	<b>195,563</b>	<b>205,647</b>

Total stockholders' equity	256,144	273,202
Total liabilities and stockholders' equity	\$ 365,264	\$ 396,711

See accompanying notes.

[Table of Contents](#)

Alphabet Inc.

**Alphabet Inc.  
CONSOLIDATED STATEMENTS OF INCOME**

(in millions, except per share amounts; unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2022	2023	2022	2023
Revenues	\$ 69,092	\$ 76,693	\$ 206,788	\$ 221,084
Costs and expenses:				
Cost of revenues	31,158	33,229	90,861	95,757
Research and development	10,273	11,258	29,233	33,314
Sales and marketing	6,929	6,884	19,384	20,198
General and administrative	3,597	3,979	10,628	11,219
Total costs and expenses	<u>51,957</u>	<u>55,350</u>	<u>150,106</u>	<u>160,488</u>
Income from operations	17,135	21,343	56,682	60,596
Other income (expense), net	(902)	(146)	(2,501)	709
Income before income taxes	16,233	21,197	54,181	61,305
Provision for income taxes	2,323	1,508	7,833	8,197
Net income	<u><u>\$ 13,910</u></u>	<u><u>\$ 19,689</u></u>	<u><u>\$ 46,348</u></u>	<u><u>\$ 53,108</u></u>
Basic net income per share of Class A, Class B, and Class C stock	\$ 1.07	\$ 1.56	\$ 3.53	\$ 4.19
Diluted net income per share of Class A, Class B, and Class C stock	\$ 1.06	\$ 1.55	\$ 3.50	\$ 4.16

See accompanying notes.



[Table of Contents](#)

Alphabet Inc.

**Alphabet Inc.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in millions; unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2022	2023	2022	2023
Net income	\$ 13,910	\$ 19,689	\$ 46,348	\$ 53,108
Other comprehensive income (loss):				
Change in foreign currency translation adjustment	(2,175)	(1,169)	(3,801)	(338)
Available-for-sale investments:				
Change in net unrealized gains (losses)	(1,800)	(678)	(5,204)	(382)
Less: reclassification adjustment for net (gains) losses included in net income	362	255	743	745
Net change, net of income tax benefit (expense) of \$409, \$120, \$1,269 and \$(104)	(1,438)	(423)	(4,461)	363
Cash flow hedges:				
Change in net unrealized gains (losses)	1,136	550	2,165	627
Less: reclassification adjustment for net (gains) losses included in net income	(547)	(3)	(1,132)	(85)
Net change, net of income tax benefit (expense) of \$(159), \$(134), \$(228) and \$(115)	589	547	1,033	542
Other comprehensive income (loss)	(3,024)	(1,045)	(7,229)	567

Comprehensive income	<u>\$ 10,886</u>	<u>\$ 18,644</u>	<u>\$ 39,119</u>	<u>\$ 53,675</u>
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See accompanying notes.

**Alphabet Inc.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in millions; unaudited)

**Three Months Ended September 30, 2022**

	Class A, Class B, Class C Stock and Additional Paid- In Capital		Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount			
Balance as of June 30, 2022	13,078	\$ 64,402	\$ (5,828)	\$ 196,845	\$ 255,419
Stock issued	31	0	0	0	0
Stock-based compensation expense	0	5,018	0	0	5,018
Tax withholding related to vesting of restricted stock units and other	0	(2,315)	0	0	(2,315)
Repurchases of stock	(138)	(857)	0	(14,535)	(15,392)
Sale of interest in consolidated entities	0	10	0	0	10
Net income	0	0	0	13,910	13,910
Other comprehensive income (loss)	0	0	(3,024)	0	(3,024)
Balance as of September 30, 2022	<u>12,971</u>	<u>\$ 66,258</u>	<u>\$ (8,852)</u>	<u>\$ 196,220</u>	<u>\$ 253,626</u>

**Nine Months Ended September 30, 2022**

	Class A, Class B, Class C Stock and Additional Paid- In Capital		Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount			
Balance as of December 31, 2021	13,242	\$ 61,774	\$ (1,623)	\$ 191,484	\$ 251,635
Stock issued	98	8	0	0	8
Stock-based compensation expense	0	14,388	0	0	14,388
Tax withholding related to vesting of restricted stock units and other	0	(7,644)	0	(1)	(7,645)
Repurchases of stock	(369)	(2,278)	0	(41,611)	(43,889)
Sale of interest in consolidated entities	0	10	0	0	10
Net income	0	0	0	46,348	46,348
Other comprehensive income (loss)	0	0	(7,229)	0	(7,229)
Balance as of September 30, 2022	<u>12,971</u>	<u>\$ 66,258</u>	<u>\$ (8,852)</u>	<u>\$ 196,220</u>	<u>\$ 253,626</u>



[Table of Contents](#)

## Alphabet Inc.

Three Months Ended September 30, 2023						
	Class A, Class B, Class C Stock and Additional Paid- In Capital		Accumulated Other Comprehensive Income (Loss)		Retained Earnings	Total Stockholders' Equity
	Shares	Amount	\$	(5,991)		
Balance as of June 30, 2023	12,629	\$ 72,248	\$	(5,991)	\$ 200,884	\$ 267,141
Stock issued	34	0		0	0	0
Stock-based compensation expense	0	5,777		0	0	5,777
Tax withholding related to vesting of restricted stock units and other	0	(2,442)		0	0	(2,442)
Repurchases of stock	(122)	(992)		0	(14,926)	(15,918)
Net income	0	0		0	19,689	19,689
Other comprehensive income (loss)	0	0		(1,045)	0	(1,045)
Balance as of September 30, 2023	<u>12,541</u>	<u>\$ 74,591</u>	<u>\$</u>	<u>(7,036)</u>	<u>\$ 205,647</u>	<u>\$ 273,202</u>

**Nine Months Ended September 30, 2023**

	Class A, Class B, Class C Stock and Additional Paid- In Capital		Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount			
Balance as of December 31, 2022	12,849	\$ 68,184	\$ (7,603)	\$ 195,563	\$ 256,144
Stock issued	102	0	0	0	0
Stock-based compensation expense	0	16,905	0	0	16,905
Tax withholding related to vesting of restricted stock units and other	0	(7,366)	0	0	(7,366)
Repurchases of stock	(410)	(3,132)	0	(43,024)	(46,156)
Net income	0	0	0	53,108	53,108
Other comprehensive income (loss)	0	0	567	0	567
Balance as of September 30, 2023	<u>12,541</u>	<u>\$ 74,591</u>	<u>\$ (7,036)</u>	<u>\$ 205,647</u>	<u>\$ 273,202</u>

See accompanying notes.



**Alphabet Inc.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in millions; unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2022</b>	<b>2023</b>
<b>Operating activities</b>		
Net income	\$ 46,348	\$ 53,108
Adjustments:		
Depreciation and impairment of property and equipment	11,222	10,010
Amortization and impairment of intangible assets	505	373
Stock-based compensation expense	14,262	16,801
Deferred income taxes	(6,157)	(6,093)
Loss (gain) on debt and equity securities, net	3,856	1,294
Other	369	912
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	2,298	(1,315)
Income taxes, net	(862)	10,392
Other assets	(4,268)	(2,883)
Accounts payable	735	237
Accrued expenses and other liabilities	491	(380)
Accrued revenue share	(1,022)	(315)
Deferred revenue	104	690
Net cash provided by operating activities	67,881	82,831
<b>Investing activities</b>		
Purchases of property and equipment	(23,890)	(21,232)

Purchases of marketable securities	(67,253)	(49,422)
Maturities and sales of marketable securities	84,087	52,642
Purchases of non-marketable securities	(1,628)	(2,176)
Maturities and sales of non-marketable securities	131	743
Acquisitions, net of cash acquired, and purchases of intangible assets	(6,885)	(466)
Other investing activities	1,367	(985)
Net cash used in investing activities	<u>(14,071)</u>	<u>(20,896)</u>
<b>Financing activities</b>		
Net payments related to stock-based award activities	(7,221)	(7,157)
Repurchases of stock	(43,889)	(45,313)
Proceeds from issuance of debt, net of costs	44,322	9,298
Repayments of debt	(45,350)	(9,621)
Proceeds from sale of interest in consolidated entities, net	10	8
Net cash used in financing activities	<u>(52,128)</u>	<u>(52,785)</u>
Effect of exchange rate changes on cash and cash equivalents	(643)	(327)
<b>Net increase in cash and cash equivalents</b>	<b>1,039</b>	<b>8,823</b>
Cash and cash equivalents at beginning of period	20,945	21,879
<b>Cash and cash equivalents at end of period</b>	<b>\$ 21,984</b>	<b>\$ 30,702</b>

See accompanying notes.



**Alphabet Inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

## **Note 1. Summary of Significant Accounting Policies**

### **Nature of Operations**

Google was incorporated in California in September 1998 and re-incorporated in the State of Delaware in August 2003. In 2015, we implemented a holding company reorganization, and as a result, Alphabet Inc. ("Alphabet") became the successor issuer to Google.

We generate revenues by delivering relevant, cost-effective online advertising; cloud-based solutions that provide enterprise customers with infrastructure and platform services as well as communication and collaboration tools; sales of other products and services, such as apps and in-app purchases, and hardware; and fees received for subscription-based products.

### **Basis of Consolidation**

The consolidated financial statements of Alphabet include the accounts of Alphabet and entities consolidated under the variable interest and voting models. Intercompany balances and transactions have been eliminated.

### **Unaudited Interim Financial Information**

These unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (GAAP), and in our opinion, include all adjustments of a normal recurring nature necessary for fair financial statement presentation. Interim results are not necessarily indicative of the results to be expected for the full year ending December 31, 2023. We have made estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ materially from these estimates.

These consolidated financial statements and other information presented in this Form 10-Q should be read in conjunction with the consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 filed with the SEC.

## **Change in Accounting Estimate**

In January 2023, we completed an assessment of the useful lives of our servers and network equipment and adjusted the estimated useful life of our servers from four years to six years and the estimated useful life of certain network equipment from five years to six years. This change in accounting estimate was effective beginning in fiscal year 2023. Based on the carrying value of servers and certain network equipment as of December 31, 2022, and those placed in service during the nine months ended September 30, 2023, the effect of this change in estimate was a reduction in depreciation expense of \$977 million and \$2.9 billion and an increase in net income of \$761 million and \$2.3 billion, or \$0.06 and \$0.18 per basic and \$0.06 and \$0.18 per diluted share, for the three and nine months ended September 30, 2023, respectively.

## Prior Period Reclassifications

Certain amounts in prior periods have been reclassified to conform with current period presentation.

## Note 2. Revenues

### Disaggregated Revenues

The following table presents revenues disaggregated by type (in millions):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2022	2023	2022	2023
Google Search & other	\$ 39,539	\$ 44,026	\$ 119,846	\$ 127,013
YouTube ads	7,071	7,952	21,280	22,310
Google Network	7,872	7,669	24,305	23,015
Google advertising	54,482	59,647	165,431	172,338
Google other	6,895	8,339	20,259	23,894
Google Services total	61,377	67,986	185,690	196,232
Google Cloud	6,868	8,411	18,965	23,896
Other Bets	209	297	842	870
Hedging gains (losses)	638	(1)	1,291	86
Total revenues	<u>\$ 69,092</u>	<u>\$ 76,693</u>	<u>\$ 206,788</u>	<u>\$ 221,084</u>

The following table presents revenues disaggregated by geography, based on the addresses of our customers (in millions):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022		2023		2022		2023	
	Revenue	%	Revenue	%	Revenue	%	Revenue	%
United States	\$33,372	48 %	\$36,354	47 %	\$ 97,832	47 %	\$104,291	47 %
EMEA <sup>(1)</sup>	19,450	28	22,661	30	60,300	29	66,028	30
APAC <sup>(1)</sup>	11,494	17	13,126	17	35,045	17	37,535	17
Other Americas <sup>(1)</sup>	4,138	6	4,553	6	12,320	6	13,144	6
Hedging gains (losses)	638	1	(1)	0	1,291	1	86	0
Total revenues	<u><u>\$69,092</u></u>	<u><u>100 %</u></u>	<u><u>\$76,693</u></u>	<u><u>100 %</u></u>	<u><u>\$206,788</u></u>	<u><u>100 %</u></u>	<u><u>\$221,084</u></u>	<u><u>100 %</u></u>

<sup>(1)</sup> Regions represent Europe, the Middle East, and Africa (EMEA); Asia-Pacific (APAC); and Canada and Latin America ("Other Americas").

## Revenue Backlog

As of September 30, 2023, we had \$64.9 billion of remaining performance obligations ("revenue backlog"), primarily related to Google Cloud. Our revenue backlog represents commitments in customer contracts for future services that have not yet been recognized as revenue. The amount and timing of revenue recognition for these commitments is largely driven by our ability to deliver in accordance with relevant contract terms and when our customers utilize services, which could affect our estimate of revenue backlog and when we expect to

recognize such as revenue. We expect to recognize approximately half of the revenue backlog as revenues over the next 24 months with the remaining to be recognized thereafter. Revenue backlog includes related deferred revenue currently recorded as well as amounts that will be invoiced in future periods, and excludes contracts with an original expected term of one year or less and cancellable contracts.

## **Deferred Revenues**

We record deferred revenues when cash payments are received or due in advance of our performance, including amounts which are refundable. Deferred revenues primarily relate to Google Cloud and Google other. Total deferred revenue as of December 31, 2022 was \$4.5 billion, of which \$2.3 billion was recognized as revenues during the nine months ended September 30, 2023.

## Note 3. Financial Instruments

### Fair Value Measurements

#### ***Investments Measured at Fair Value on a Recurring Basis***

Cash, cash equivalents, and marketable equity securities are measured at fair value and classified within Level 1 and Level 2 in the fair value hierarchy, because we use quoted prices for identical assets in active markets or inputs that are based upon quoted prices for similar instruments in active markets.

Debt securities are measured at fair value and classified within Level 2 in the fair value hierarchy, because we use quoted market prices to the extent available or alternative pricing sources and models utilizing market observable inputs to determine fair value. For certain marketable debt securities, we have elected the fair value option for which changes in fair value are recorded in other income (expense), net. The fair value option was elected for these securities to align with the unrealized gains and losses from related derivative contracts.

The following tables summarize our cash, cash equivalents, and marketable securities measured at fair value on a recurring basis (in millions):



Money market funds	Level 1		\$ 7,234	\$ 7,234	\$ 0
Current marketable equity securities <sup>(2)</sup>	Level 1		4,013	0	4,013
Mutual funds	Level 2		339	0	339
Government bonds	Level 2		1,877	440	1,437
Corporate debt securities	Level 2		3,744	65	3,679
Mortgage-backed and asset-backed securities	Level 2		1,686	2	1,684
Total investments with fair value change recorded in net income			\$ 18,893	\$ 7,741	\$ 11,152
Cash			0	8,561	0
<b>Total</b>	<b>\$ 91,087</b>	<b>\$ 77</b>	<b>\$ (4,856)</b>	<b>\$ 105,201</b>	<b>\$ 21,879</b>
					<b>\$ 91,883</b>

- <sup>(1)</sup> Represents gross unrealized gains and losses for debt securities recorded to accumulated other comprehensive income (AOCI).
- <sup>(2)</sup> The long-term portion of marketable equity securities (subject to long-term lock-up restrictions) of \$803 million as of December 31, 2022 is included within other non-current assets.

## Table of Contents

Alphabet Inc.



Money market funds	Level 1		\$ 9,268	\$ 9,268	\$ 0
Current marketable equity securities <sup>(2)</sup>	Level 1		3,706	0	3,706
Mutual funds	Level 2		309	0	309
Government bonds	Level 2		2,141	555	1,586
Corporate debt securities	Level 2		3,483	93	3,390
Mortgage-backed and asset-backed securities	Level 2		2,305	0	2,305
Total investments with fair value change recorded in net income			\$ 21,212	\$ 9,916	\$ 11,296
Cash			0	9,294	0
<b>Total</b>	<b>\$ 93,754</b>	<b>\$ 5</b>	<b>\$ (4,330)</b>	<b>\$ 110,641</b>	<b>\$ 30,702</b>
					<b>\$ 89,233</b>

- (1) Represents gross unrealized gains and losses for debt securities recorded to AOCI.
- (2) The long-term portion of marketable equity securities (subject to long-term lock-up restrictions) of \$958 million as of September 30, 2023 is included within other non-current assets

### ***Investments Measured at Fair Value on a Nonrecurring Basis***

Our non-marketable equity securities are investments in privately held companies without readily determinable market values. The carrying value of our non-marketable equity securities is adjusted to fair value upon observable transactions for identical or similar investments of the same issuer or impairment. Non-marketable equity securities that have been remeasured during the period based on observable transactions are classified within Level 2 or Level 3 in the fair value hierarchy because we estimate the value based on valuation methods which may include a combination of the observable transaction price at the transaction date and other unobservable inputs including volatility, rights, and obligations of the securities we hold. The fair value of non-marketable equity securities that have been remeasured due to impairment are classified within Level 3.

As of September 30, 2023, the carrying value of our non-marketable equity securities was \$28.8 billion, of which \$10.4 billion were remeasured at fair value during the three months ended September 30, 2023 and primarily classified as Level 2.

## Debt Securities

The following table summarizes the estimated fair value of investments in available-for-sale marketable debt securities by effective contractual maturity dates (in millions):

	As of September 30, 2023
Due in 1 year or less	\$ 13,958
Due in 1 year through 5 years	42,554
Due in 5 years through 10 years	15,114
Due after 10 years	13,592
Total	<hr/> <hr/> <hr/> <hr/> <hr/> \$ 85,218

The following tables present fair values and gross unrealized losses recorded to AOCI, aggregated by investment category and the length of time that individual securities have been in a continuous loss position (in millions):

	As of December 31, 2022					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Government bonds	\$ 21,039	\$ (1,004)	\$ 13,438	\$ (1,041)	\$ 34,477	\$ (2,045)
Corporate debt securities	11,228	(440)	15,125	(1,052)	26,353	(1,492)
Mortgage-backed and asset-backed securities	7,725	(585)	6,964	(657)	14,689	(1,242)
Total	<u>\$ 39,992</u>	<u>\$ (2,029)</u>	<u>\$ 35,527</u>	<u>\$ (2,750)</u>	<u>\$ 75,519</u>	<u>\$ (4,779)</u>

	As of September 30, 2023					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Government bonds	\$ 15,506	\$ (463)	\$ 19,121	\$ (1,453)	\$ 34,627	\$ (1,916)
Corporate debt securities	4,163	(60)	17,162	(935)	21,325	(995)
Mortgage-backed and asset-backed securities	6,888	(239)	9,212	(1,094)	16,100	(1,333)
Total	<u>\$ 26,557</u>	<u>\$ (762)</u>	<u>\$ 45,495</u>	<u>\$ (3,482)</u>	<u>\$ 72,052</u>	<u>\$ (4,244)</u>

We determine realized gains or losses on the sale or extinguishment of debt securities on a specific identification method. The following table summarizes gains and losses for debt securities, reflected as a component of OI&E (in millions):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2022	2023	2022	2023
Unrealized gain (loss) on fair value option debt securities	\$ (177)	\$ (86)	\$ (746)	\$ 35
Gross realized gain on debt securities	14	8	83	93
Gross realized loss on debt securities	(551)	(402)	(1,190)	(1,197)
(Increase) decrease in allowance for credit losses	(17)	(23)	(35)	(31)
Total gain (loss) on debt securities recognized in other income (expense), net	<u>\$ (731)</u>	<u>\$ (503)</u>	<u>\$ (1,888)</u>	<u>\$ (1,100)</u>

## Equity Investments

The carrying value of equity securities is measured as the total initial cost plus the cumulative net gain (loss). Our share of gains and losses, including impairments, are included as a component of OI&E in the Consolidated Statements of Income. See Note 6 for further details on OI&E.

The carrying values for marketable and non-marketable equity securities are summarized below (in millions):

	As of December 31, 2022			As of September 30, 2023		
	Marketable Equity Securities	Non- Marketable Equity Securities	Total	Marketable Equity Securities	Non- Marketable Equity Securities	Total
Total initial cost	\$ 5,764	\$ 16,157	\$ 21,921	\$ 5,331	\$ 17,504	\$ 22,835
Cumulative net gain (loss) <sup>(1)</sup>	(608)	12,372	11,764	(358)	11,317	10,959
Carrying value	<u>\$ 5,156</u>	<u>\$ 28,529</u>	<u>\$ 33,685</u>	<u>\$ 4,973</u>	<u>\$ 28,821</u>	<u>\$ 33,794</u>

<sup>(1)</sup> Non-marketable equity securities cumulative net gain (loss) is comprised of \$16.8 billion gains and \$4.5 billion losses (including impairments) as of December 31, 2022 and \$18.0 billion gains and \$6.7 billion losses (including impairments) as of September 30, 2023.

## **Gains and Losses on Marketable and Non-marketable Equity Securities**

Gains and losses (including impairments), net, for marketable and non-marketable equity securities included in OI&E are summarized below (in millions):

	Three Months Ended		Nine Months Ended	
	September 30, 2022	2023	September 30, 2022	2023
Realized net gain (loss) on equity securities sold during the period	\$ (73)	\$ 42	\$ (355)	\$ 348
Unrealized net gain (loss) on marketable equity securities	(86)	(224)	(2,494)	136
Unrealized net gain (loss) on non-marketable equity securities <sup>(1)</sup>	(488)	(184)	881	(678)
<b>Total gain (loss) on equity securities in other income (expense), net</b>	<b>\$ (647)</b>	<b>\$ (366)</b>	<b>\$ (1,968)</b>	<b>\$ (194)</b>

<sup>(1)</sup> Unrealized gain (loss) on non-marketable equity securities accounted for under the measurement alternative is comprised of \$219 million and \$599 million of upward adjustments and \$707 million and \$783 million of downward adjustments (including impairments) for three months ended September 30, 2022 and 2023, respectively, and \$3.2 billion and \$1.6 billion of upward adjustments and \$2.4 billion and \$2.3 billion of downward adjustments (including impairments) for the nine months ended September 30, 2022 and 2023, respectively.

In the table above, realized net gain (loss) on equity securities sold during the period reflects the difference between the sale proceeds and the carrying value of the equity securities at the beginning of the period or the purchase date, if later.

Cumulative net gains (losses) on equity securities sold during the period, which is summarized in the following table (in millions), represents the total net gains (losses) recognized after the initial purchase date of the equity security sold during the period. While these net gains (losses) may have been reflected in periods prior to the period of sale, we believe they are important supplemental information as they reflect the economic net gains (losses) on the securities sold during the period. Cumulative net gains (losses) are calculated as the difference between the sale price and the initial purchase price for the equity security sold during the period.

	Equity Securities Sold			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2023	2022	2023
Total sale price	\$ 296	\$ 736	\$ 1,631	\$ 1,475
Total initial cost	310	549	738	916
Cumulative net gain (loss)	<u>\$ (14)</u>	<u>\$ 187</u>	<u>\$ 893</u>	<u>\$ 559</u>

## ***Equity Securities Accounted for Under the Equity Method***

As of December 31, 2022 and September 30, 2023, equity securities accounted for under the equity method had a carrying value of approximately \$1.5 billion for both periods. Our share of gains and losses, including impairments, are included as a component of OI&E, in the Consolidated Statements of Income. See Note 6 for further details on OI&E.

## **Derivative Financial Instruments**

We use derivative instruments to manage risks relating to our ongoing business operations. The primary risk managed is foreign exchange risk. We use foreign currency contracts to reduce the risk that our cash flows, earnings, and investment in foreign subsidiaries will be adversely affected by foreign currency exchange rate fluctuations. We also enter into derivative instruments to partially offset our exposure to other risks and enhance investment returns.

We recognize derivative instruments in the Consolidated Balance Sheets at fair value and classify the derivatives primarily within Level 2 in the fair value hierarchy. We present our collar contracts (an option strategy comprised of a combination of purchased and written options) at net fair values and present all other derivatives at gross fair values. The accounting treatment for derivatives is based on the intended use and hedge designation.

## ***Cash Flow Hedges***

We designate foreign currency forward and option contracts (including collars) as cash flow hedges to hedge certain forecasted revenue transactions denominated in currencies other than the U.S. dollar. These contracts have maturities of 24 months or less.

Cash flow hedge amounts included in the assessment of hedge effectiveness are deferred in AOCI and subsequently reclassified to revenue when the hedged item is recognized in earnings. We exclude forward points and time value from our assessment of hedge effectiveness and amortize them on a straight-line basis over the life of the hedging instrument in revenues. The difference between fair value changes of the excluded component and the amount amortized to revenues is recorded in AOCI.

As of September 30, 2023, the net accumulated gain on our foreign currency cash flow hedges before tax effect was \$691 million, which is expected to be reclassified from AOCI into revenues within the next 12 months.

## ***Fair Value Hedges***

We designate foreign currency forward contracts as fair value hedges to hedge foreign currency risks for our marketable securities denominated in currencies other than the U.S. dollar. Fair value hedge amounts included in the assessment of hedge effectiveness are recognized in OI&E, along with the offsetting gains and losses of the related hedged items. We exclude forward points from the assessment of hedge effectiveness and recognize changes in the excluded component in OI&E.

## ***Net Investment Hedges***

We designate foreign currency forward contracts as net investment hedges to hedge the foreign currency risks related to our investment in foreign subsidiaries. Net investment hedge amounts included in the assessment of hedge effectiveness are recognized in AOCI along with the foreign currency translation adjustment. We exclude forward points from the assessment of hedge effectiveness and recognize changes in the excluded component in OI&E.

### ***Other Derivatives***

We enter into foreign currency forward and option contracts that are not designated as hedging instruments to hedge intercompany transactions and other monetary assets or liabilities denominated in currencies other than the functional currency of a subsidiary. Gains and losses on these derivatives that are not designated as accounting hedges are primarily recorded in OI&E along with the foreign currency gains and losses on monetary assets and liabilities.

We also use derivatives not designated as hedging instruments to manage risks relating to interest rates, commodity prices, credit exposures, and to enhance investment returns. From time to time, we enter into derivatives to hedge the market price risk on certain of our marketable equity securities. Gains and losses arising from other derivatives are primarily reflected within the “other” component of OI&E. See Note 6 for further details.

The gross notional amounts of outstanding derivative instruments were as follows (in millions):

	<u>As of December 31, 2022</u>	<u>As of September 30, 2023</u>
<b>Derivatives designated as hedging instruments:</b>		
Foreign exchange contracts		
Cash flow hedges	\$ 15,972	\$ 17,225
Fair value hedges	\$ 2,117	\$ 1,384
Net investment hedges	\$ 8,751	\$ 9,547
<b>Derivatives not designated as hedging instruments:</b>		
Foreign exchange contracts	\$ 34,979	\$ 36,585
Other contracts	\$ 7,932	\$ 11,572

The fair values of outstanding derivative instruments were as follows (in millions):

	As of December 31, 2022		As of September 30, 2023	
	Assets <sup>(1)</sup>	Liabilities <sup>(2)</sup>	Assets <sup>(1)</sup>	Liabilities <sup>(2)</sup>
<b>Derivatives designated as hedging instruments:</b>				
Foreign exchange contracts	\$ 271	\$ 556	\$ 1,102	\$ 14
<b>Derivatives not designated as hedging instruments:</b>				
Foreign exchange contracts	365	207	123	496
Other contracts	40	47	149	85
Total derivatives not designated as hedging instruments	405	254	272	581
<b>Total</b>	<b>\$ 676</b>	<b>\$ 810</b>	<b>\$ 1,374</b>	<b>\$ 595</b>

<sup>(1)</sup> Derivative assets are recorded as other current and non-current assets in the Consolidated Balance Sheets.

<sup>(2)</sup> Derivative liabilities are recorded as accrued expenses and other liabilities, current and non-current in the Consolidated Balance Sheets.

The gains (losses) on derivatives in cash flow hedging and net investment hedging relationships recognized in other comprehensive income (OCI) are summarized below (in

millions):

	Gains (Losses) Recognized in OCI on Derivatives Before Tax Effect			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2023	2022	2023
<b>Derivatives in cash flow hedging relationship:</b>				
Foreign exchange contracts				
Amount included in the assessment of effectiveness	\$ 1,486	\$ 652	\$ 2,752	\$ 591
Amount excluded from the assessment of effectiveness	(77)	16	(131)	143
<b>Derivatives in net investment hedging relationship:</b>				
Foreign exchange contracts				
Amount included in the assessment of effectiveness	760	336	1,418	62
Total	<u>\$ 2,169</u>	<u>\$ 1,004</u>	<u>\$ 4,039</u>	<u>\$ 796</u>

The table below presents the gains (losses) of our derivatives on the Consolidated Statements of Income: (in millions):

	Gains (Losses) Recognized in Income			
	Three Months Ended September 30,			
	2022		2023	
	Revenues	Other income (expense), net	Revenues	Other income (expense), net
Total amounts in the Consolidated Statements of Income	\$ 69,092	\$ (902)	\$ 76,693	\$ (146)
<b>Effect of cash flow hedges:</b>				
Foreign exchange contracts				
Amount reclassified from AOCI to income	\$ 658	\$ 0	\$ (15)	\$ 0
Amount excluded from the assessment of effectiveness (amortized)	(20)	0	14	0
<b>Effect of fair value hedges:</b>				
Foreign exchange contracts				
Hedged items	0	(226)	0	(48)
Derivatives designated as hedging instruments	0	226	0	48
Amount excluded from the assessment of effectiveness	0	6	0	2
<b>Effect of net investment hedges:</b>				
Foreign exchange contracts				

Amount excluded from the assessment of effectiveness	0	59	0	13
<b>Effect of non designated hedges:</b>				
Foreign exchange contracts	0	(495)	0	(340)
Other contracts	0	34	0	83
Total gains (losses)	<u>\$ 638</u>	<u>\$ (396)</u>	<u>\$ (1)</u>	<u>\$ (242)</u>

## Table of Contents

Alphabet Inc.

	Gains (Losses) Recognized in Income			
	Nine Months Ended September 30,			
	2022		2023	
	Revenues	Other income (expense), net	Revenues	Other income (expense), net
Total amounts in the Consolidated Statements of Income	\$ 206,788	\$ (2,501)	\$ 221,084	\$ 709
<b>Effect of cash flow hedges:</b>				
Foreign exchange contracts				
Amount of gains (losses) reclassified from AOCI to income	\$ 1,355	\$ 0	\$ 71	\$ 0
Amount excluded from the assessment of effectiveness (amortized)	(63)	0	16	0
<b>Effect of fair value hedges:</b>				
Foreign exchange contracts				
Hedged items	0	(349)	0	6
Derivatives designated as hedging instruments	0	350	0	(6)
Amount excluded from the assessment of effectiveness	0	9	0	12
<b>Effect of net investment hedges:</b>				
Foreign exchange contracts				

Total amounts in the Consolidated Statements of Income

**Effect of cash flow hedges:**

Foreign exchange contracts

    Amount of gains (losses) reclassified from AOCI to income

    Amount excluded from the assessment of effectiveness (amortized)

**Effect of fair value hedges:**

Foreign exchange contracts

    Hedged items

    Derivatives designated as hedging instruments

    Amount excluded from the assessment of effectiveness

**Effect of net investment hedges:**

Foreign exchange contracts

#### Foreign exchange contracts

Amount excluded from the assessment of effectiveness	0	99	0	136
<b>Effect of non designated hedges:</b>				
Foreign exchange contracts	0	(891)	0	(186)
Other contracts	0	158	0	82
Total gains (losses)	<u>\$ 1,292</u>	<u>\$ (624)</u>	<u>\$ 87</u>	<u>\$ 44</u>

#### **Offsetting of Derivatives**

We enter into master netting arrangements and collateral security arrangements to reduce credit risk. Cash collateral received related to derivative instruments under our collateral security arrangements are included in other current assets with a corresponding liability. Cash and non-cash collateral pledged related to derivative instruments under our collateral security arrangements are included in other current assets.

The gross amounts of derivative instruments subject to master netting arrangements with various counterparties, and cash and non-cash collateral received and pledged under such agreements were as follows (in millions):

As of December 31, 2022

	Gross Amounts Not Offset in the Consolidated Balance Sheets, but Have Legal Rights to Offset					
	Gross Amounts Recognized	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets	Financial Instruments <sup>(1)</sup>	Cash and Non-Cash Collateral Received or Pledged	Net Amounts
Derivatives assets	\$ 760	\$ (84)	\$ 676	\$ (463)	\$ (132)	\$ 81
Derivatives liabilities	\$ 894	\$ (84)	\$ 810	\$ (463)	\$ (28)	\$ 319

As of September 30, 2023

	Gross Amounts Not Offset in the Consolidated Balance Sheets, but Have Legal Rights to Offset						Net Amounts
	Gross Amounts Recognized	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets	Financial Instruments <sup>(1)</sup>	Cash and Non-Cash Collateral Received or Pledged		
Derivatives assets	\$ 1,396	\$ (22)	\$ 1,374	\$ (448)	\$ (730)		\$ 196
Derivatives liabilities	\$ 617	\$ (22)	\$ 595	\$ (448)	\$ (25)		\$ 122

<sup>(1)</sup> The balances as of December 31, 2022 and September 30, 2023 were related to derivatives allowed to be net settled in accordance with our master netting agreements.

#### Note 4. Variable Interest Entities (VIE)

##### Consolidated VIEs

We consolidate VIEs in which we hold a variable interest and are the primary beneficiary. The results of operations and financial position of these VIEs are included in our consolidated financial statements.

For certain consolidated VIEs, their assets are not available to us and their creditors do not have recourse to us. As of December 31, 2022 and September 30, 2023, assets that can only be used to settle obligations of these VIEs were \$4.1 billion and \$2.6 billion, respectively, and the liabilities for which creditors only have recourse to the VIEs were \$2.6 billion and \$2.2 billion, respectively. We may continue to fund ongoing operations of certain VIEs that are included within Other Bets.

Total noncontrolling interests (NCI) in our consolidated subsidiaries were \$3.8 billion and \$3.4 billion as of December 31, 2022 and September 30, 2023, respectively, of which \$1.1 billion is redeemable noncontrolling interest (RNCI) for both periods. NCI and RNCI are included within additional paid-in capital. Net loss attributable to noncontrolling interests was not material for any period presented and is included within the "other" component of OI&E. See Note 6 for further details on OI&E.

## **Unconsolidated VIEs**

We have investments in VIEs in which we are not the primary beneficiary. These VIEs include private companies that are primarily early stage companies and certain renewable energy entities in which activities involve power generation using renewable sources.

We have determined that the governance structures of these entities do not allow us to direct the activities that would significantly affect their economic performance. Therefore, we are not the primary beneficiary, and the results of operations and financial position of these VIEs are not included in our consolidated financial statements. We account for these investments primarily as non-marketable equity securities or equity method investments.

The maximum exposure of these unconsolidated VIEs is generally based on the current carrying value of the investments and any future funding commitments. The maximum exposure and carrying value of these unconsolidated VIEs were \$2.8 billion and \$2.7 billion, respectively, as of December 31, 2022 and \$5.5 billion and \$3.8 billion, respectively, as of September 30, 2023. The difference between the maximum exposure and the carrying value relates primarily to future funding commitments.

## **Note 5. Debt**

### **Short-Term Debt**

We have a debt financing program of up to \$10.0 billion through the issuance of commercial paper. Net proceeds from this program are used for general corporate purposes. We had no commercial paper outstanding as of December 31, 2022 and September 30, 2023.

Our short-term debt balance also includes the current portion of certain long-term debt.

## Long-Term Debt

Total outstanding debt is summarized below (in millions, except percentages):

	Maturity	Coupon Rate	Effective Interest Rate	As of December 31, 2022	As of September 30, 2023
<b>Debt</b>					
2014-2020 Notes issuances	2024 - 2060	0.45% - 3.38%	0.57% - 3.38%	\$ 13,000	\$ 13,000
Future finance lease payments, net and other <sup>(1)</sup>				2,142	2,314
<b>Total debt</b>				<u>15,142</u>	<u>15,314</u>
Unamortized discount and debt issuance costs				(143)	(133)
Less: Current portion of long-term notes <sup>(2)</sup>				0	(1,000)
Less: Current portion of future finance lease payments, net and other current debt <sup>(1)(2)</sup>				(298)	(400)
<b>Total long-term debt</b>				<u>\$ 14,701</u>	<u>\$ 13,781</u>

- (1) Future finance lease payments are net of imputed interest.
- (2) Total current portion of long-term debt is included within other accrued expenses and current liabilities. See Note 6 for further details.

The notes in the table above are fixed-rate senior unsecured obligations and generally rank equally with each other. We may redeem the notes at any time in whole or in part at specified redemption prices. The effective interest rates are based on proceeds received with interest payable semi-annually.

The total estimated fair value of the outstanding notes was approximately \$9.9 billion and \$9.6 billion as of December 31, 2022 and September 30, 2023, respectively. The fair value was determined based on observable market prices of identical instruments in less active markets and is categorized accordingly as Level 2 in the fair value hierarchy.

## Credit Facility

As of September 30, 2023, we had \$10.0 billion of revolving credit facilities of which \$4.0 billion expires in April 2024 and \$6.0 billion expires in April 2028. The interest rates for all credit facilities are determined based on a formula using certain market rates, as well as our progress toward the achievement of certain sustainability goals. No amounts were outstanding under the credit facilities as of December 31, 2022 and September 30, 2023.

## Note 6. Supplemental Financial Statement Information

### Accounts Receivable

The allowance for credit losses on accounts receivable was \$754 million and \$832 million as of December 31, 2022 and September 30, 2023, respectively.

## **Property and Equipment, Net**

Property and equipment, net, consisted of the following (in millions):

	As of December 31, 2022	As of September 30, 2023
Land and buildings	\$ 66,897	\$ 71,357
Information technology assets	66,267	74,928
Construction in progress	27,657	32,305
Leasehold improvements	10,575	11,441
Furniture and fixtures	314	424
Property and equipment, gross	<u>171,710</u>	<u>190,455</u>
Less: accumulated depreciation	<u>(59,042)</u>	<u>(64,750)</u>
Property and equipment, net	<u><u>\$ 112,668</u></u>	<u><u>\$ 125,705</u></u>

## Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following (in millions):

	As of December 31, 2022	As of September 30, 2023
European Commission fines <sup>(1)</sup>	\$ 9,106	\$ 9,143
Income taxes payable, net <sup>(2)</sup>	1,632	13,528
Accrued customer liabilities	3,619	3,595
Accrued purchases of property and equipment	3,019	4,090
Current operating lease liabilities	2,477	2,715
Other accrued expenses and current liabilities	<u>18,013</u>	<u>22,531</u>
Accrued expenses and other current liabilities	<u><u>\$ 37,866</u></u>	<u><u>\$ 55,602</u></u>

<sup>(1)</sup> While each EC decision is under appeal, the fines are included in accrued expenses and other current liabilities on our Consolidated Balance Sheets, as we provided bank guarantees (in lieu of a cash payment) for the fines. Amounts include the effects of foreign exchange and interest. See Note 9 for further details.

<sup>(2)</sup> Income taxes payable, net as of the quarter ended September 30, 2023 includes balances related to the 2023 Internal Revenue Service (IRS) payment deferral relief made available to taxpayers headquartered in designated counties in California.

## Accumulated Other Comprehensive Income (Loss)

Components of AOCI, net of income tax, were as follows (in millions):

	Foreign Currency Translation Adjustments	Unrealized Gains (Losses) on Available-for- Sale Investments	Unrealized Gains (Losses) on Cash Flow Hedges	Total
Balance as of December 31, 2021	\$ (2,306)	\$ 236	\$ 447	\$ (1,623)
Other comprehensive income (loss) before reclassifications	(3,801)	(5,204)	2,296	(6,709)
Amounts excluded from the assessment of hedge effectiveness recorded in AOCI	0	0	(131)	(131)
Amounts reclassified from AOCI	0	743	(1,132)	(389)
Other comprehensive income (loss)	<u>(3,801)</u>	<u>(4,461)</u>	<u>1,033</u>	<u>(7,229)</u>
Balance as of September 30, 2022	<u><u>\$ (6,107)</u></u>	<u><u>\$ (4,225)</u></u>	<u><u>\$ 1,480</u></u>	<u><u>\$ (8,852)</u></u>

	<b>Foreign Currency Translation Adjustments</b>	<b>Unrealized Gains (Losses) on Available-for- Sale Investments</b>	<b>Unrealized Gains (Losses) on Cash Flow Hedges</b>	<b>Total</b>
Balance as of December 31, 2022	\$ (4,142)	\$ (3,477)	\$ 16	\$ (7,603)
Other comprehensive income (loss) before reclassifications	(338)	(382)	484	(236)
Amounts excluded from the assessment of hedge effectiveness recorded in AOCI	0	0	143	143
Amounts reclassified from AOCI	0	745	(85)	660
Other comprehensive income (loss)	<u>(338)</u>	<u>363</u>	<u>542</u>	<u>567</u>
Balance as of September 30, 2023	<u><u>\$ (4,480)</u></u>	<u><u>\$ (3,114)</u></u>	<u><u>\$ 558</u></u>	<u><u>\$ (7,036)</u></u>

## Table of Contents

Alphabet Inc.

The effects on net income of amounts reclassified from AOCI were as follows (in millions):

AOCI Components	Location	Gains (Losses) Reclassified from AOCI to the Consolidated Statements of Income			
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2022	2023	2022	2023
Unrealized gains (losses) on available-for-sale investments					
	Other income (expense), net	\$ (464)	\$ (327)	\$ (953)	\$ (955)
	Benefit (provision) for income taxes	102	72	210	210
	Net of income tax	<u>(362)</u>	<u>(255)</u>	<u>(743)</u>	<u>(745)</u>
Unrealized gains (losses) on cash flow hedges					
Foreign exchange contracts	Revenue	658	(15)	1,355	71
Interest rate contracts	Other income (expense), net	2	2	5	5
	Benefit (provision) for income taxes	(113)	16	(228)	9
	Net of income tax	<u>547</u>	<u>3</u>	<u>1,132</u>	<u>85</u>
Total amount reclassified, net of income tax		<u>\$ 185</u>	<u>\$ (252)</u>	<u>\$ 389</u>	<u>\$ (660)</u>

## Other Income (Expense), Net

Components of OI&E were as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2023	2022	2023
	\$ 615	\$ 1,066	\$ 1,515	\$ 2,755
Interest income				
Interest expense <sup>(1)</sup>	(101)	(116)	(267)	(239)
Foreign currency exchange gain (loss), net	(136)	(311)	(469)	(789)
Gain (loss) on debt securities, net	(731)	(503)	(1,888)	(1,100)
Gain (loss) on equity securities, net	(647)	(366)	(1,968)	(194)
Performance fees	54	179	605	302
Income (loss) and impairment from equity method investments, net	(99)	(215)	(306)	(372)
Other	143	120	277	346
Other income (expense), net	<u>\$ (902)</u>	<u>\$ (146)</u>	<u>\$ (2,501)</u>	<u>\$ 709</u>

<sup>(1)</sup> Interest expense is net of interest capitalized of \$28 million and \$47 million for the three months ended September 30, 2022 and 2023, respectively, and \$99 million and \$134 million for the nine months ended September 30, 2022 and 2023, respectively.

## Note 7. Workforce Reduction and Other Initiatives

We have a company-wide effort underway to re-engineer our cost base. As part of this program, in January 2023, we announced a reduction of our workforce. As a result, total employee severance and related charges recorded during the three and nine months ended

September 30, 2023 were \$86 million and \$2.1 billion, respectively. Substantially all of the employees affected were no longer included in our headcount as of September 30, 2023.

In addition, we are taking actions to optimize our global office space. As a result, exit charges recorded during the three and nine months ended September 30, 2023, were \$16 million and \$649 million, respectively, as reflected in the table below. In addition to these exit charges, for the three and nine months ended September 30, 2023, we incurred \$207 million in accelerated rent and accelerated depreciation, which are not included in the table below. We may incur additional charges in the future as we further evaluate our real estate needs.

Severance and office space exit charges are included within our consolidated statements of income as follows (in millions):

	Three Months Ended September 30, 2023			Nine Months Ended September 30, 2023		
	Severance and Related (\$) <sup>(1)</sup>	Office Space	Total	Severance and Related (\$) <sup>(1)</sup>	Office Space	Total
Cost of revenues	\$ 17	\$ 6	\$ 23	\$ 477	\$ 246	\$ 723
Research and development	15	7	22	847	268	1,115
Sales and marketing	50	1	51	494	59	553
General and administrative	4	2	6	263	76	339
Total charges	<u><u>\$ 86</u></u>	<u><u>\$ 16</u></u>	<u><u>\$ 102</u></u>	<u><u>\$ 2,081</u></u>	<u><u>\$ 649</u></u>	<u><u>\$ 2,730</u></u>

<sup>(1)</sup> Severance includes amounts to be settled in cash, accounted for as one-time involuntary employee termination benefits, and stock based compensation.

For segment reporting, the substantial majority of these charges are included within unallocated corporate costs in our segment results.

For the nine months ended September 30, 2023, changes in liabilities resulting from the severance charges and related accruals were as follows (in millions):

	<b>Severance and Related</b>
Balance as of December 31, 2022	\$ 0
Charges <sup>(1)</sup>	1,652
Cash payments	(1,547)
Balance as of September 30, 2023 <sup>(2)</sup>	<u><u>\$ 105</u></u>

<sup>(1)</sup> Excludes non-cash stock-based compensation of \$429 million.

<sup>(2)</sup> Included in accrued compensation and benefits on the Consolidated Balance Sheets.

## Note 8. Goodwill and Other Intangible Assets

### Goodwill

Changes in the carrying amount of goodwill for the nine months ended September 30, 2023 were as follows (in millions):

	Google Services	Google Cloud	Other Bets	Total
Balance as of December 31, 2022	\$ 20,847	\$ 7,205	\$ 908	\$ 28,960
Acquisitions	240	3	0	243
Foreign currency translation and other adjustments	(15)	(13)	(29)	(57)
Balance as of September 30, 2023	<u><u>\$ 21,072</u></u>	<u><u>\$ 7,195</u></u>	<u><u>\$ 879</u></u>	<u><u>\$ 29,146</u></u>



## Other Intangible Assets

Information regarding intangible assets was as follows (in millions):

	As of December 31, 2022			As of September 30, 2023		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents and developed technology	\$ 1,164	\$ 354	\$ 810	\$ 1,152	\$ 453	\$ 699
Customer relationships	862	235	627	868	335	533
Trade names and other	527	120	407	528	161	367
Total definite-lived intangible assets	2,553	709	1,844	2,548	949	1,599
Indefinite-lived intangible assets	240	0	240	234	0	234
<b>Total intangible assets</b>	<b>\$ 2,793</b>	<b>\$ 709</b>	<b>\$ 2,084</b>	<b>\$ 2,782</b>	<b>\$ 949</b>	<b>\$ 1,833</b>

Amortization expense relating to intangible assets was \$113 million and \$129 million for the three months ended September 30, 2022 and 2023, respectively, and \$505 million and \$373 million for the nine months ended September 30, 2022 and 2023, respectively.

Expected amortization expense of definite-lived intangible assets held as of September 30, 2023 was as follows (in millions):

Remainder of 2023	\$	118
2024		466
2025		335
2026		257
2027		174
Thereafter		249
Total	\$	<u>1,599</u>

## **Note 9. Commitments and Contingencies**

### **Commitments**

We have content licensing agreements with future fixed or minimum guaranteed commitments of \$11.1 billion as of September 30, 2023, of which the majority is paid over seven years ending in the first quarter of 2030.

### **Indemnifications**

In the normal course of business, including to facilitate transactions in our services and products and corporate activities, we indemnify certain parties, including advertisers, Google

Network partners, distribution partners, customers of Google Cloud offerings, lessors, and service providers with respect to certain matters. We have agreed to defend and/or hold certain parties harmless against losses arising from a breach of representations or covenants, or out of intellectual property infringement or other claims made against certain parties. Several of these agreements limit the time within which an indemnification claim can be made and the amount of the claim. In addition, we have entered into indemnification agreements with our officers and directors, and our bylaws contain similar indemnification obligations to our agents.

It is not possible to make a reasonable estimate of the maximum potential amount under these indemnification agreements due to the unique facts and circumstances involved in each particular agreement. Additionally, the payments we have made under such agreements have not had a material adverse effect on our results of operations, cash flows, or financial position. However, to the extent that valid indemnification claims arise in the future, future payments by us could be significant and could have a material adverse effect on our results of operations or cash flows in a particular period.

As of September 30, 2023, we did not have any material indemnification claims that were probable or reasonably possible.

## Legal Matters

We record a liability when we believe that it is probable that a loss has been incurred, and the amount can be reasonably estimated. If we determine that a loss is reasonably possible and the loss or range of loss can be estimated, we disclose the reasonably possible loss. We evaluate developments in our legal matters that could affect the amount of liability that has been previously accrued, and the matters and related reasonably possible losses disclosed, and make adjustments as appropriate.

Certain outstanding matters seek speculative, substantial or indeterminate monetary amounts, substantial changes to our business practices and products, or structural remedies. Significant judgment is required to determine both the likelihood of there being a loss and the estimated amount of a loss related to such matters, and we may be unable to estimate the reasonably possible loss or range of losses. The outcomes of outstanding legal matters are inherently unpredictable and subject to significant uncertainties, and could, either individually or in aggregate, have a material adverse effect.

We expense legal fees in the period in which they are incurred.

## *Antitrust Investigations*

On November 30, 2010, the EC's Directorate General for Competition opened an investigation into various antitrust-related complaints against us.

On June 27, 2017, the EC announced its decision that certain actions taken by Google regarding its display and ranking of shopping search results and ads infringed European competition law. The EC decision imposed a €2.4 billion (\$2.7 billion as of June 27, 2017) fine. On September 11, 2017, we appealed the EC decision to the General Court, and on September 27, 2017, we implemented product changes to bring shopping ads into compliance with the EC's decision. We recognized a charge of \$2.7 billion for the fine in the second quarter of 2017. On November 10, 2021, the General Court rejected our appeal, and we subsequently filed an appeal with the European Court of Justice on January 20, 2022.

On July 18, 2018, the EC announced its decision that certain provisions in Google's Android-related distribution agreements infringed European competition law. The EC decision imposed a €4.3 billion (\$5.1 billion as of June 30, 2018) fine and directed the termination of the conduct at issue. On October 9, 2018, we appealed the EC decision, and on October 29, 2018, we implemented changes to certain of our Android distribution practices. On September 14, 2022, the General Court reduced the fine from €4.3 billion to €4.1 billion. We subsequently filed an appeal with the European Court of Justice. In 2018, we recognized a charge of \$5.1 billion for the fine, which we reduced by \$217 million in 2022.

On March 20, 2019, the EC announced its decision that certain contractual provisions in agreements that Google had with AdSense for Search partners infringed European competition law. The EC decision imposed a fine of €1.5 billion (\$1.7 billion as of March 20, 2019) and directed actions related to AdSense for Search partners' agreements, which we implemented

prior to the decision. On June 4, 2019, we appealed the EC decision. We recognized a charge of \$1.7 billion for the fine in the first quarter of 2019.

From time to time we are subject to formal and informal inquiries and investigations on various competition matters by regulatory authorities in the U.S., Europe, and other jurisdictions globally. For example:

- In August 2019, we began receiving civil investigative demands from the U.S. Department of Justice (DOJ) requesting information and documents relating to our prior antitrust investigations and certain aspects of our business. The DOJ and a number of state Attorneys General filed a lawsuit in the U.S. District Court for the District of Columbia on October 20, 2020 alleging that Google violated U.S. antitrust laws relating to Search and Search advertising. The trial commenced on September 12, 2023, and we expect a decision in 2024. Further, in June 2022, the Australian Competition and Consumer Commission (ACCC) and the United Kingdom's Competition and Markets Authority (CMA) each opened an investigation into Search distribution practices.
- On December 16, 2020, a number of state Attorneys General filed an antitrust complaint in the U.S. District Court for the Eastern District of Texas, alleging that Google violated U.S. antitrust laws as well as state deceptive trade laws relating to its advertising technology. Additionally, on January 24, 2023, the DOJ, along with a number of state Attorneys General, filed an antitrust complaint in the U.S. District Court for the Eastern District of Virginia alleging that Google's digital advertising technology products violate U.S. antitrust laws, and on April 17, 2023, a number of additional state

Attorneys General joined the complaint. The EC, the CMA, and the ACCC each opened a formal investigation into Google's advertising technology

business practices on June 22, 2021, May 25, 2022, and June 29, 2022, respectively. On June 14, 2023, the EC issued a Statement of Objections (SO) informing Google of its preliminary view that Google violated European antitrust laws relating to its advertising technology. We will respond to the SO by December 31, 2023.

- On July 7, 2021, a number of state Attorneys General filed an antitrust complaint in the U.S. District Court for the Northern District of California, alleging that Google's operation of Android and Google Play violated U.S. antitrust laws and state antitrust and consumer protection laws. In September 2023, we reached a settlement in principle with 50 state Attorneys General and three territories. The U.S. District Court subsequently vacated the trial date with the states, and any final approval of the settlement is expected to occur in 2024. In May 2022, the EC and the CMA each opened investigations into Google Play's business practices. Korean regulators are investigating Google Play's billing practices, including a formal review in May 2022 of Google's compliance with the new app store billing regulations. On October 6, 2023, the Korea Communications Commission issued a preliminary decision that we are not in full compliance with the new regulations. We intend to respond in November 2023.

We believe these complaints are without merit and will defend ourselves vigorously. We continue to cooperate with federal and state regulators in the U.S., the EC, and other regulators

around the world.

## ***Patent and Intellectual Property Claims***

We have had patent, copyright, trade secret, and trademark infringement lawsuits filed against us claiming that certain of our products, services, and technologies infringe others' intellectual property rights. Adverse results in these lawsuits may include awards of substantial monetary damages, costly royalty or licensing agreements, or orders preventing us from offering certain features, functionalities, products, or services. As a result, we may have to change our business practices and develop non-infringing products or technologies, which could result in a loss of revenues for us and otherwise harm our business. In addition, the U.S. International Trade Commission (ITC) has increasingly become an important forum to litigate intellectual property disputes because an ultimate loss in an ITC action can result in a prohibition on importing infringing products into the U.S. Because the U.S. is an important market, a prohibition on importation could have an adverse effect on us, including preventing us from importing many important products into the U.S. or necessitating workarounds that may limit certain features of our products.

Furthermore, many of our agreements with our customers and partners require us to indemnify them against certain intellectual property infringement claims, which would increase our costs as a result of defending such claims, and may require that we pay significant damages if there were an adverse ruling in any such claims. In addition, our customers and partners may discontinue the use of our products, services, and technologies, as a result of injunctions or otherwise, which could result in loss of revenues and adversely affect our business.

## **Other**

We are subject to claims, lawsuits, regulatory and government investigations, other proceedings, and consent orders involving competition, intellectual property, data privacy and security, tax and related compliance, labor and employment, commercial disputes, content generated by our users, goods and services offered by advertisers or publishers using our platforms, personal injury, consumer protection, and other matters. For example, we currently have a number of privacy investigations and lawsuits ongoing in multiple jurisdictions. We also periodically have data incidents that we report to relevant regulators as required by law. Such claims, lawsuits, regulatory and government investigations, other proceedings, and consent orders could result in substantial fines and penalties, injunctive relief, ongoing monitoring and auditing obligations, changes to our products and services, alterations to our business models and operations, and collateral related civil litigation or other adverse consequences, all of which could harm our business, reputation, financial condition, and operating results.

We have ongoing legal matters relating to Russia. For example, civil judgments that include compounding penalties have been imposed upon us in connection with disputes regarding the termination of accounts, including those of sanctioned parties. We do not believe these ongoing legal matters will have a material adverse effect.

## **Non-Income Taxes**

We are under audit by various domestic and foreign tax authorities with regards to non-income tax matters. The subject matter of non-income tax audits primarily arises from disputes on the tax treatment and tax rate applied to the sale of our products and services in these jurisdictions and the tax treatment of certain employee benefits. We accrue non-income taxes

that may result from examinations by, or any negotiated agreements with, these tax authorities when a loss is probable and reasonably estimable. If we determine that a loss is reasonably possible and the loss or range of loss can be estimated, we disclose the reasonably possible loss. Due to the inherent complexity

and uncertainty of these matters and judicial process in certain jurisdictions, the final outcome may be materially different from our expectations.

For information regarding income tax contingencies, see Note 13.

## **Note 10. Stockholders' Equity**

### **Share Repurchases**

In the three and nine months ended September 30, 2023, we repurchased \$15.9 billion and \$46.2 billion, respectively, of Alphabet's Class A and Class C shares.

In April 2023, the Board of Directors of Alphabet authorized the company to repurchase up to an additional \$70.0 billion of its Class A and Class C shares. As of September 30, 2023, \$52.3 billion remains available for Class A and Class C share repurchases.

The following table presents Class A and Class C shares repurchased and subsequently retired (in millions):

	Three Months Ended September 30, 2023		Nine Months Ended September 30, 2023	
	Shares	Amount	Shares	Amount
Class A share repurchases	14	\$ 1,805	51	\$ 5,724
Class C share repurchases	108	14,113	359	40,432
<b>Total share repurchases<sup>(1)</sup></b>	<b>122</b>	<b>\$ 15,918</b>	<b>410</b>	<b>\$ 46,156</b>

<sup>(1)</sup> Shares repurchased include unsettled repurchases as of September 30, 2023.

Class A and Class C shares are repurchased in a manner deemed in the best interest of the company and its stockholders, taking into account the economic cost and prevailing market conditions, including the relative trading prices and volumes of the Class A and Class C shares. Repurchases are executed from time to time, subject to general business and market conditions and other investment opportunities, through open market purchases or privately negotiated transactions, including through Rule 10b5-1 plans. The repurchase program does not have an expiration date.

## **Note 11. Net Income Per Share**

The following table sets forth the computation of basic and diluted net income per share of Class A, Class B, and Class C stock (in millions, except per share amounts):

	Three Months Ended September 30,					
	2022			2023		
	Class A	Class B	Class C	Class A	Class B	Class C
Basic net income per share:						
Numerator						
Allocation of undistributed earnings	\$ 6,393	\$ 946	\$ 6,571	\$ 9,271	\$ 1,369	\$ 9,049
Denominator						
Number of shares used in per share computation	5,983	885	6,150	5,924	875	5,782
Basic net income per share	<u>\$ 1.07</u>	<u>\$ 1.07</u>	<u>\$ 1.07</u>	<u>\$ 1.56</u>	<u>\$ 1.56</u>	<u>\$ 1.56</u>
Diluted net income per share:						
Numerator						
Allocation of undistributed earnings for basic computation	\$ 6,393	\$ 946	\$ 6,571	\$ 9,271	\$ 1,369	\$ 9,049
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares	946	0	0	1,369	0	0
Reallocation of undistributed earnings	(45)	(6)	45	(96)	(12)	96
Allocation of undistributed earnings	<u>\$ 7,294</u>	<u>\$ 940</u>	<u>\$ 6,616</u>	<u>\$ 10,544</u>	<u>\$ 1,357</u>	<u>\$ 9,145</u>
Denominator						
Number of shares used in basic computation	5,983	885	6,150	5,924	875	5,782
Weighted-average effect of dilutive securities						
Add:						
Conversion of Class B to Class A shares outstanding	885	0	0	875	0	0
Restricted stock units and other contingently issuable shares	0	0	79	0	0	115

Number of shares used in per share computation	6,868	885	6,229	6,799	875	5,897
Diluted net income per share	\$ 1.06	\$ 1.06	\$ 1.06	\$ 1.55	\$ 1.55	\$ 1.55

## Table of Contents

Alphabet Inc.

	Nine Months Ended September 30,					
	2022			2023		
	Class A	Class B	Class C	Class A	Class B	Class C
<b>Basic net income per share:</b>						
Numerator						
Allocation of undistributed earnings	\$ 21,213	\$ 3,137	\$ 21,998	\$ 24,851	\$ 3,682	\$ 24,575
Denominator						
Number of shares used in per share computation	6,004	888	6,226	5,932	879	5,866
Basic net income per share	<u>\$ 3.53</u>	<u>\$ 3.53</u>	<u>\$ 3.53</u>	<u>\$ 4.19</u>	<u>\$ 4.19</u>	<u>\$ 4.19</u>
<b>Diluted net income per share:</b>						
Numerator						
Allocation of undistributed earnings for basic computation	\$ 21,213	\$ 3,137	\$ 21,998	\$ 24,851	\$ 3,682	\$ 24,575
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares	3,137	0	0	3,682	0	0
Reallocation of undistributed earnings	(204)	(26)	204	(187)	(24)	187
Allocation of undistributed earnings	<u>\$ 24,146</u>	<u>\$ 3,111</u>	<u>\$ 22,202</u>	<u>\$ 28,346</u>	<u>\$ 3,658</u>	<u>\$ 24,762</u>
Denominator						
Number of shares used in basic computation	6,004	888	6,226	5,932	879	5,866
Weighted-average effect of dilutive securities						
Add:						
Conversion of Class B to Class A shares outstanding	888	0	0	879	0	0
Restricted stock units and other contingently issuable shares	0	0	111	0	0	84

Number of shares used in per share computation	6,892	888	6,337	6,811	879	5,950
Diluted net income per share	\$ 3.50	\$ 3.50	\$ 3.50	\$ 4.16	\$ 4.16	\$ 4.16

For the periods presented above, the net income per share amounts are the same for Class A, Class B, and Class C stock because the holders of each class are entitled to equal per share dividends or distributions in liquidation in accordance with the Amended and Restated Certificate of Incorporation of Alphabet Inc.

## Note 12. Compensation Plans

### Stock-Based Compensation

For the three months ended September 30, 2022 and 2023, total stock-based compensation (SBC) expense was \$5.0 billion and \$5.8 billion, including amounts associated with awards we expect to settle in Alphabet stock of \$4.8 billion and \$5.6 billion, respectively. For the nine months ended September 30, 2022 and 2023, total SBC expense was \$14.4 billion and \$16.5 billion, including amounts associated with awards we expect to settle in Alphabet stock of \$13.8 billion and \$16.3 billion, respectively.

During the nine months ended September 30, 2023, total SBC expense includes \$429 million associated with workforce reduction costs. See Note 7 for further information.

### Stock-Based Award Activities

The following table summarizes the activities for unvested Alphabet restricted stock units (RSUs) for the nine months ended September 30, 2023 (in millions, except per share amounts):

	<b>Unvested Restricted Stock Units</b>	
	<b>Number of Shares</b>	<b>Weighted-Average Grant-Date Fair Value</b>
Unvested as of December 31, 2022		
Granted	324	\$ 107.98
Vested	255	\$ 96.49
Forfeited/canceled	(160)	\$ 100.31
Unvested as of September 30, 2023	(26)	\$ 107.27
	<b>393</b>	<b>\$ 103.71</b>

As of September 30, 2023, there was \$38.5 billion of unrecognized compensation cost related to unvested RSUs. This amount is expected to be recognized over a weighted-average period of 2.6 years.

### Note 13. Income Taxes

The following table presents provision for income taxes (in millions, except for effective tax rate):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2023	2022	2023
Income before provision for income taxes	\$ 16,233	\$ 21,197	\$ 54,181	\$ 61,305
Provision for income taxes	\$ 2,323	\$ 1,508	\$ 7,833	\$ 8,197
Effective tax rate	14.3 %	7.1 %	14.5 %	13.4 %

We are subject to income taxes in the U.S. and foreign jurisdictions. Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. The total amount of gross unrecognized tax benefits was \$7.1 billion and \$8.8 billion as of December 31, 2022 and September 30, 2023, respectively, of which \$5.3 billion and \$6.8 billion, if recognized, would affect our effective tax rate, respectively.

## Note 14. Information about Segments and Geographic Areas

We report our segment results as Google Services, Google Cloud, and Other Bets:

- Google Services includes products and services such as ads, Android, Chrome, hardware, Google Maps, Google Play, Search, and YouTube. Google Services generates revenues primarily from advertising; sales of apps and in-app purchases, and hardware; and fees received for subscription-based products such as YouTube Premium and YouTube TV.
- Google Cloud includes infrastructure and platform services, collaboration tools, and other services for enterprise customers. Google Cloud generates revenues from fees received for Google Cloud Platform services, Google Workspace communication and collaboration tools, and other enterprise services.
- Other Bets is a combination of multiple operating segments that are not individually material. Revenues from Other Bets are generated primarily from the sale of health technology and internet services.

Revenues, certain costs, such as costs associated with content and traffic acquisition, certain engineering activities, and hardware, as well as certain operating expenses are directly attributable to our segments. Due to the integrated nature of Alphabet, other costs and expenses, such as technical infrastructure and office facilities, are managed centrally at a consolidated level. These costs, including the associated depreciation and impairment, are allocated to operating segments as a service cost generally based on usage, headcount, or revenue.

Reflecting DeepMind's increasing collaboration with Google Services, Google Cloud, and Other Bets, beginning in the first quarter of 2023 DeepMind is reported as part of Alphabet's unallocated corporate costs instead of within Other Bets. Additionally, beginning in the first quarter of 2023, we updated and simplified our cost allocation methodologies to provide our business leaders with increased transparency for decision-making. Prior periods have been recast to conform to the current presentation.

As announced on April 20, 2023, we brought together part of Google Research (the Brain team) and DeepMind to significantly accelerate our progress in artificial intelligence (AI). The group, called Google DeepMind, is reported within Alphabet's unallocated corporate costs prospectively beginning in the second quarter of 2023. Previously, the Brain team was included within Google Services.

Certain costs are not allocated to our segments because they represent Alphabet-level activities. These costs primarily include AI-focused shared R&D activities; corporate initiatives such as our philanthropic activities; corporate shared costs such as certain finance, human resource, and legal costs, including certain fines and settlements. Charges associated with reductions in our workforce and office space announced in January 2023 are not allocated to our segments. Additionally, hedging gains (losses) related to revenue are not allocated to our segments.

Our operating segments are not evaluated using asset information.

The following table presents information about our segments (in millions):

	Three Months Ended		Nine Months Ended	
	September 30, 2022	2023	September 30, 2022	2023
<b>Revenues:</b>				
Google Services	\$ 61,377	\$ 67,986	\$ 185,690	\$ 196,232
Google Cloud	6,868	8,411	18,965	23,896
Other Bets	209	297	842	870
Hedging gains (losses)	638	(1)	1,291	86
Total revenues	<u>\$ 69,092</u>	<u>\$ 76,693</u>	<u>\$ 206,788</u>	<u>\$ 221,084</u>

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2022	2023	2022	2023
<b>Operating income (loss):</b>				
Google Services	\$ 18,883	\$ 23,937	\$ 62,477	\$ 69,128
Google Cloud	(440)	266	(1,736)	852
Other Bets	(1,225)	(1,194)	(3,399)	(3,232)
Corporate costs, unallocated	(83)	(1,666)	(660)	(6,152)
<b>Total income from operations</b>	<b>\$ 17,135</b>	<b>\$ 21,343</b>	<b>\$ 56,682</b>	<b>\$ 60,596</b>

For revenues by geography, see Note 2.

The following table presents long-lived assets by geographic area, which includes property and equipment, net and operating lease assets (in millions):

	As of December 31, 2022	As of September 30, 2023
<b>Long-lived assets:</b>		
United States	\$ 93,565	\$ 104,113
International	33,484	35,791
<b>Total long-lived assets</b>	<b>\$ 127,049</b>	<b>\$ 139,904</b>



## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Please read the following discussion and analysis of our financial condition and results of operations together with "Note About Forward-Looking Statements" and our consolidated financial statements and related notes included under Item 1 of this Quarterly Report on Form 10-Q as well as our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, including Part I, Item 1A "Risk Factors."

### **Understanding Alphabet's Financial Results**

Alphabet is a collection of businesses — the largest of which is Google. We report Google in two segments, Google Services and Google Cloud; we also report all non-Google businesses collectively as Other Bets. For further details on our segments, see Note 14 of the Notes to Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q.

### ***Revenues and Monetization Metrics***

We generate revenues by delivering relevant, cost-effective online advertising; cloud-based solutions that provide enterprise customers of all sizes with infrastructure and platform services as well as communication and collaboration tools; sales of other products and services, such as apps and in-app purchases, and hardware; and fees received for

subscription-based products. For details on how we recognize revenue, see Note 1 of the Notes to Consolidated Financial Statements included in Part II, Item 8 in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

In addition to the long-term trends and their financial effect on our business noted in "Trends in Our Business and Financial Effect" in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, fluctuations in our revenues have been and may continue to be affected by a combination of factors, including:

- changes in foreign currency exchange rates;
- changes in pricing, such as those resulting from changes in fee structures, discounts, and customer incentives;
- general economic conditions and various external dynamics, including geopolitical events, regulations, and other measures and their effect on advertiser, consumer, and enterprise spending;
- new product and service launches; and
- seasonality.

Additionally, fluctuations in our revenues generated from advertising ("Google advertising"), revenues from other sources ("Google other revenues"), Google Cloud, and Other Bets revenues have been and may continue to be affected by other factors unique to each set of revenues, as described below.

## **Google Services**

Google Services revenues consist of Google advertising as well as Google other revenues.

### Google Advertising

Google advertising revenues are comprised of the following:

- Google Search & other, which includes revenues generated on Google search properties (including revenues from traffic generated by search distribution partners who use Google.com as their default search in browsers, toolbars, etc.), and other Google owned and operated properties like Gmail, Google Maps, and Google Play;
- YouTube ads, which includes revenues generated on YouTube properties; and
- Google Network, which includes revenues generated on Google Network properties participating in AdMob, AdSense, and Google Ad Manager.

We use certain metrics to track how well traffic across various properties is monetized as it relates to our advertising revenues: paid clicks and cost-per-click pertain to traffic on Google Search & other properties, while impressions and cost-per-impression pertain to traffic on our Google Network properties.

Paid clicks represent engagement by users and include clicks on advertisements by end-users on Google search properties and other Google owned and operated properties including Gmail, Google Maps, and Google



Play. Cost-per-click is defined as click-driven revenues divided by our total number of paid clicks and represents the average amount we charge advertisers for each engagement by users.

Impressions include impressions displayed to users on Google Network properties participating primarily in AdMob, AdSense, and Google Ad Manager. Cost-per-impression is defined as impression-based and click-based revenues divided by our total number of impressions, and represents the average amount we charge advertisers for each impression displayed to users.

As our business evolves, we periodically review, refine, and update our methodologies for monitoring, gathering, and counting the number of paid clicks and the number of impressions, and for identifying the revenues generated by the corresponding click and impression activity.

Fluctuations in our advertising revenues, as well as the change in paid clicks and cost-per-click on Google Search & other properties and the change in impressions and cost-per-impression on Google Network properties and the correlation between these items have been and may continue to be affected by additional factors, such as:

- advertiser competition for keywords;
- changes in advertising quality, formats, delivery or policy;

- changes in device mix;
- seasonal fluctuations in internet usage, advertising expenditures, and underlying business trends, such as traditional retail seasonality; and
- traffic growth in emerging markets compared to more mature markets and across various verticals and channels.

### Google Other

Google other revenues are comprised of the following:

- Google Play, which includes sales of apps and in-app purchases;
- hardware, which includes sales of Fitbit wearable devices, Google Nest home products, and Pixel devices;
- YouTube non-advertising, which includes subscription revenues from services such as YouTube Premium and YouTube TV; and
- other products and services.

Fluctuations in our Google other revenues have been and may continue to be affected by additional factors, such as changes in customer usage and demand, number of subscribers, and fluctuations in the timing of product launches.

### **Google Cloud**

Google Cloud revenues are comprised of the following:

- Google Cloud Platform, which includes fees for infrastructure, platform, and other services;
- Google Workspace, which includes fees for cloud-based communication and collaboration tools for enterprises, such as Gmail, Docs, Drive, Calendar and Meet; and
- other enterprise services.

Fluctuations in our Google Cloud revenues have been and may continue to be affected by additional factors, such as customer usage.

### ***Other Bets***

Revenues from Other Bets are generated primarily from the sale of health technology and internet services.

### ***Costs and Expenses***

Our cost structure has two components: cost of revenues and operating expenses. Our operating expenses include costs related to R&D, sales and marketing, and general and administrative functions. Certain of our costs and expenses, including those associated with the operation of our technical infrastructure as well as components of our operating expenses, are generally less variable in nature and may not correlate to changes in revenue.

## ***Cost of Revenues***

Cost of revenues is comprised of TAC and other costs of revenues.

- TAC includes:
  - Amounts paid to our distribution partners who make available our search access points and services. Our distribution partners include browser providers, mobile carriers, original equipment manufacturers, and software developers.
  - Amounts paid to Google Network partners primarily for ads displayed on their properties.
- Other cost of revenues includes:
  - Content acquisition costs, which are payments to content providers from whom we license video and other content for distribution on YouTube and Google Play (we pay fees to these content providers based on revenues generated or a flat fee).
  - Expenses associated with our data centers (including bandwidth, compensation expenses, depreciation, energy, and other equipment costs) as

well as other operations costs (such as content review as well as customer and product support costs).

- Inventory and other costs related to the hardware we sell.

TAC as a percentage of revenues generated from ads placed on Google Network properties are significantly higher than TAC as a percentage of revenues generated from ads placed on Google Search & other properties, because most of the advertiser revenues from ads served on Google Network properties are paid as TAC to our Google Network partners.

### ***Operating Expenses***

Operating expenses are generally incurred during our normal course of business, which we categorize as either R&D, sales and marketing, or general and administrative.

The main components of our R&D expenses are:

- compensation expenses for engineering and technical employees responsible for R&D related to our existing and new products and services;
- depreciation; and
- third-party services fees primarily relating to consulting and outsourced services in support of our engineering and product development efforts.

The main components of our sales and marketing expenses are:

- compensation expenses for employees engaged in sales and marketing, sales support, and certain customer service functions; and

- spending relating to our advertising and promotional activities in support of our products and services.

The main components of our general and administrative expenses are:

- compensation expenses for employees in finance, human resources, information technology, legal, and other administrative support functions;
- expenses relating to legal matters, including fines and settlements; and
- third-party services fees, including audit, consulting, outside legal, and other outsourced administrative services.

### ***Other Income (Expense), Net***

Other income (expense), net primarily consists of interest income (expense), the effect of foreign currency exchange gains (losses), net gains (losses) and impairment on our marketable and non-marketable securities, performance fees, and income (loss) and impairment from our equity method investments.

For additional details, including how we account for our investments and factors that can drive fluctuations in the value of our investments, see Note 1 of the Notes to Consolidated Financial Statements included in Part II, Item 8 and Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” in our Annual Report on Form 10-K for

the fiscal year ended December 31, 2022 as well as Note 3 of the Notes to Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q.

### ***Provision for Income Taxes***

Provision for income taxes represents the estimated amount of federal, state, and foreign income taxes incurred in the U.S. and the many jurisdictions in which we operate. The provision includes the effect of reserve provisions and changes to reserves that are considered appropriate as well as the related net interest and penalties.

For additional details, see Note 1 of the Notes to Consolidated Financial Statements included in Part II, Item 8 in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 as well as Note 13 of the Notes to Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q.

### **Executive Overview**

The following table summarizes our consolidated financial results (in millions, except per share information and percentages):

	Three Months Ended September 30,				
	2022	2023	\$ Change	% Change	
Consolidated revenues	\$ 69,092	\$ 76,693	\$ 7,601	11 %	
Change in consolidated constant currency revenues <sup>(1)</sup>				11 %	
Cost of revenues	\$ 31,158	\$ 33,229	\$ 2,071	7 %	
Operating expenses	\$ 20,799	\$ 22,121	\$ 1,322	6 %	
Operating income	\$ 17,135	\$ 21,343	\$ 4,208	25 %	
Operating margin	25 %	28 %		3 %	
Other income (expense), net	\$ (902)	\$ (146)	\$ 756	(84)%	
Net Income	\$ 13,910	\$ 19,689	\$ 5,779	42 %	
Diluted EPS	\$ 1.06	\$ 1.55	\$ 0.49	46 %	

<sup>(1)</sup> See "Use of Non-GAAP Constant Currency Measures" below for details relating to our use of constant currency information.

- Revenues were \$76.7 billion, an increase of 11% year over year, primarily driven by an increase in Google Services revenues of \$6.6 billion, or 11%, and an increase in Google Cloud revenues of \$1.5 billion, or 22%.

- Total constant currency revenues, which exclude the effect of hedging, increased 11% year over year.
- Cost of revenues was \$33.2 billion, an increase of 7% year over year, primarily driven by an increase in content acquisition costs and TAC. An overall increase in data center and other operations costs was partially offset by a reduction in depreciation expense due to the change in the estimated useful lives of our servers and certain network equipment.
- Operating expenses were \$22.1 billion, an increase of 6% year over year, primarily driven by increases in compensation expenses largely due to an increase in stock-based compensation, and charges related to legal matters, partially offset by a decrease in advertising and promotional activities. Additionally, operating expenses benefited from a reduction in depreciation expense due to the change in the estimated useful lives of our servers and certain network equipment.

### ***Other Information***

- In January 2023, we announced a reduction of our workforce, and as a result we recorded employee severance and related charges of \$86 million and \$2.1 billion for the three and nine months ended September 30, 2023, respectively. In addition, we are taking actions to optimize our global office space. As a result, exit charges recorded during the three and nine months ended September 30, 2023 were \$16 million and \$649 million, respectively. In addition to these exit charges, for the three and nine months ended September 30, 2023, we incurred \$207 million in accelerated rent and accelerated depreciation. We may



incur additional charges in the future as we further evaluate our real estate needs. For additional information, see Note 7 of the Notes to Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q.

- In January 2023, we completed an assessment of the useful lives of our servers and network equipment, resulting in a change in the estimated useful life of our servers and certain network equipment to six years. The effect of this change was a reduction in depreciation expense of \$977 million and \$2.9 billion for the three and nine months ended September 30, 2023, respectively, recognized primarily in cost of revenues and R&D expenses. For additional information, see Note 1 of the Notes to Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q.
- On July 21, 2023, the IRS announced a rule change allowing taxpayers to temporarily apply the regulations in effect prior to 2022 related to U.S. federal foreign tax credits. This announcement only applies to foreign taxes paid or accrued in the fiscal years 2022 and 2023. A cumulative one-time adjustment applicable to prior periods for this tax rule change was recorded in the third quarter of 2023 and resulted in our effective tax rate of 7.1% for the quarter ended September 30, 2023 and 13.4% for the nine months ended September 30, 2023.

- Repurchases of Class A and Class C shares were \$15.9 billion for the three months ended September 30, 2023. See Note 10 of the Notes to Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q for additional information.
- Operating cash flow was \$30.7 billion for the three months ended September 30, 2023, which reflects the 2023 IRS payment deferral relief made available to taxpayers headquartered in designated counties in California. On October 16, 2023, we made an estimated income tax payment to the IRS of \$10.5 billion that will be reflected in our fourth quarter operating cash flow.
- Capital expenditures, which primarily reflected investments in technical infrastructure, were \$8.1 billion for the three months ended September 30, 2023.
- As of September 30, 2023, we had 182,381 employees. Substantially all of the employees affected by the reduction of our workforce were no longer included in our headcount as of September 30, 2023.

## Financial Results

### Revenues

The following table presents revenues by type (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2023	2022	2023
Google Search & other	\$ 39,539	\$ 44,026	\$ 119,846	\$ 127,013
YouTube ads	7,071	7,952	21,280	22,310
Google Network	7,872	7,669	24,305	23,015
Google advertising	54,482	59,647	165,431	172,338
Google other	6,895	8,339	20,259	23,894
Google Services total	61,377	67,986	185,690	196,232
Google Cloud	6,868	8,411	18,965	23,896
Other Bets	209	297	842	870
Hedging gains (losses)	638	(1)	1,291	86
Total revenues	\$ 69,092	\$ 76,693	\$ 206,788	\$ 221,084

## ***Google Services***

### ***Google advertising revenues***

#### ***Google Search & other***

Google Search & other revenues increased \$4.5 billion and \$7.2 billion from the three and nine months ended September 30, 2022 to the three and nine months ended September 30, 2023, respectively. The overall growth was driven by interrelated factors including increases in search queries resulting from growth in user adoption and usage on mobile devices; growth in advertiser spending, and improvements we have made in ad formats and delivery. Growth was adversely affected by changes in foreign currency exchange rates for the nine months ended September 30, 2023, particularly during the first six months of the year.

#### ***YouTube ads***

YouTube ads revenues increased \$881 million and \$1.0 billion from the three and nine months ended September 30, 2022 to the three and nine months ended September 30, 2023, respectively. The growth was driven by our brand advertising products followed by our direct response advertising products, both of which benefited from increased spending by our advertisers. Growth was adversely affected by changes in foreign currency exchange rates for the nine months ended September 30, 2023, particularly during the first six months of the year.

#### ***Google Network***

Google Network revenues decreased \$203 million and \$1.3 billion from the three and nine months ended September 30, 2022 to the three and nine months ended September 30, 2023, respectively, primarily driven by a decrease in Google Ad Manager and AdSense revenues.

Additionally, Google Network revenues were adversely affected by changes in foreign currency exchange rates for the nine months ended September 30, 2023, particularly during the first six months of the year.

### Monetization Metrics

#### *Paid clicks and cost-per-click*

The following table presents year-over-year changes in paid clicks and cost-per-click (expressed as a percentage):

	Three Months Ended September 30,	Nine Months Ended September 30,
	2023	2023
Paid clicks change	7%	8%
Cost-per-click change	4%	(2)%

Paid clicks increased from the three months ended September 30, 2022 to the three months ended September 30, 2023 driven by a number of interrelated factors, including an increase in search queries resulting from growth in user adoption and usage on mobile devices; growth in advertiser spending; and ongoing product and policy changes. Cost-per-click increased from the three months ended September 30, 2022 to the three months ended September 30, 2023 driven by a number of interrelated factors, including changes in device mix, geographic mix, advertiser spending, ongoing product and policy changes, and property mix.

Paid clicks increased from the nine months ended September 30, 2022 to the nine months ended September 30, 2023 driven by a number of interrelated factors, including an increase in search queries resulting from growth in user adoption and usage on mobile devices; growth in advertiser spending; and ongoing product and policy changes. Cost-per-click decreased from the nine months ended September 30, 2022 to the nine months ended September 30, 2023, driven by a number of interrelated factors, including changes in device mix, geographic mix, advertiser spending, ongoing product and policy changes, and property mix, as well as by the adverse effect of changes in foreign currency exchange rates for the nine months ended September 30, 2023, particularly during the first six months of the year.

*Impressions and cost-per-impression*

The following table presents year-over-year changes in impressions and cost-per-impression (expressed as a percentage):

	<b>Three Months Ended September 30,</b>	<b>Nine Months Ended September 30,</b>
	<b>2023</b>	<b>2023</b>
Impressions change	(3)%	(2)%
Cost-per-impression change	1%	(3)%

Impressions decreased from the three months ended September 30, 2022 to the three months ended September 30, 2023, driven by decreases in Google Ad Manager and AdSense, partially offset by an increase in AdMob. The increase in cost-per-impression from the three months ended September 30, 2022 to the three months ended September 30, 2023 was driven by a number of interrelated factors, including ongoing product and policy changes, changes in device mix, geographic mix, product mix, and property mix.

Impressions decreased from the nine months ended September 30, 2022 to the nine months ended September 30, 2023, driven by decreases in Google Ad Manager and AdSense, partially offset by an increase in AdMob. The decrease in cost-per-impression from the nine months ended September 30, 2022 to the nine months ended September 30, 2023 was driven by a number of interrelated factors, including ongoing product and policy changes, changes in device mix, geographic mix, product mix, and property mix, as well as the adverse effect of changes in foreign currency exchange rates for the nine months ended September 30, 2023, particularly during the first six months of the year.

### Google other revenues

Google other revenues increased \$1.4 billion and \$3.6 billion from the three and nine months ended September 30, 2022 to the three and nine months ended September 30, 2023, primarily driven by growth in YouTube non-advertising, largely due to an increase in paid subscribers. Growth was adversely affected by changes in foreign currency exchange rates for the nine months ended September 30, 2023, particularly during the first six months of the year.

### **Google Cloud**

Google Cloud revenues increased \$1.5 billion and \$4.9 billion from the three and nine months ended September 30, 2022 to the three and nine months ended September 30, 2023, respectively. Growth was primarily driven by Google Cloud Platform followed by Google Workspace offerings. Google Cloud's infrastructure and platform services were the largest drivers of growth in Google Cloud Platform.

## **Revenues by Geography**

The following table presents revenues by geography as a percentage of revenues, determined based on the addresses of our customers:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2023	2022	2023
United States	48 %	47 %	47 %	47 %
EMEA	28 %	30 %	29 %	30 %
APAC	17 %	17 %	17 %	17 %
Other Americas	6 %	6 %	6 %	6 %
Hedging gains (losses)	1 %	0 %	1 %	0 %

For further details on revenues by geography, see Note 2 of the Notes to Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q.

## ***Use of Non-GAAP Constant Currency Information***

International revenues, which represent a significant portion of our revenues, are generally transacted in multiple currencies and therefore are affected by fluctuations in foreign currency exchange rates.

The effect of currency exchange rates on our business is an important factor in understanding period-to-period comparisons. We use non-GAAP constant currency revenues ("constant currency revenues") and non-GAAP percentage change in constant currency revenues ("percentage change in constant currency revenues") for financial and operational decision-making and as a means to evaluate period-to-period comparisons. We believe the presentation of results on a constant currency basis in addition to GAAP results helps improve the ability to understand our performance, because it excludes the effects of foreign currency volatility that are not indicative of our core operating results.

Constant currency information compares results between periods as if exchange rates had remained constant period over period. We define constant currency revenues as revenues excluding the effect of foreign currency exchange rate movements ("FX Effect") as well as hedging activities, which are recognized at the consolidated level. We use constant currency revenues to determine the constant currency revenue percentage change on a year-on-year basis. Constant currency revenues are calculated by translating current period revenues using prior year comparable period exchange rates, as well as excluding any hedging effects realized in the current period.

Constant currency revenue percentage change is calculated by determining the change in current period revenues over prior year comparable period revenues where current period foreign currency revenues are translated using prior year comparable period exchange rates and hedging effects are excluded from revenues of both periods.

These results should be considered in addition to, not as a substitute for, results reported in accordance with GAAP. Results on a constant currency basis, as we present them, may not

be comparable to similarly titled measures used by other companies and are not a measure of performance presented in accordance with GAAP.

The following table presents the foreign currency exchange effect on international revenues and total revenues (in millions, except percentages):

	Three Months Ended September 30, 2023							
					% Change from Prior Period			
	Three Months Ended September 30,		Less FX Effect	Constant Currency Revenues	As Reported	Less Hedging Effect	Less FX Effect	Constant Currency Revenues
	2022	2023						
United States	\$ 33,372	\$ 36,354	\$ 0	\$ 36,354	9 %		0 %	9 %
EMEA	19,450	22,661	803	21,858	17 %		5 %	12 %
APAC	11,494	13,126	(270)	13,396	14 %		(3)%	17 %
Other Americas	4,138	4,553	(106)	4,659	10 %		(3)%	13 %
Revenues, excluding hedging effect	68,454	76,694	427	76,267	12 %		1 %	11 %
Hedging gains (losses)	638	(1)						
Total revenues <sup>(1)</sup>	<u>\$ 69,092</u>	<u>\$ 76,693</u>		<u>\$ 76,267</u>	11 %	(1)%	1 %	11 %

<sup>(1)</sup> Total constant currency revenues of \$76.3 billion for the three months ended September 30, 2023 increased \$7.8 billion compared to \$68.5 billion in revenues, excluding hedging effect, for the three months ended September 30, 2022.

EMEA revenue growth was favorably affected by changes in foreign currency exchange rates, primarily due to the U.S. dollar weakening relative to the Euro and to a lesser extent the British pound, partially offset by the U.S. dollar strengthening relative to the Turkish lira.

APAC revenue growth was unfavorably affected by changes in foreign currency exchange rates, primarily due to the U.S. dollar strengthening relative to the Japanese yen.

Other Americas revenue growth was unfavorably affected by changes in foreign currency exchange rates, primarily due to the U.S. dollar strengthening relative to the Argentine peso.

	Nine Months Ended September 30, 2023							
	% Change from Prior Period							
	Nine Months Ended September 30,		Less FX Effect	Constant Currency Revenues	As Reported	Less Hedging Effect	Less FX Effect	Constant Currency Revenues
	2022	2023						
United States	\$ 97,832	\$ 104,291	\$ 0	\$ 104,291	7 %		0 %	7 %
EMEA	60,300	66,028	(645)	66,673	9 %		(2)%	11 %
APAC	35,045	37,535	(1,669)	39,204	7 %		(5)%	12 %
Other Americas	12,320	13,144	(579)	13,723	7 %		(4)%	11 %
Revenues, excluding hedging effect	205,497	220,998	(2,893)	223,891	8 %		(1)%	9 %
Hedging gains (losses)	1,291	86						
Total revenues <sup>(1)</sup>	<u>\$ 206,788</u>	<u>\$ 221,084</u>		<u>\$ 223,891</u>	7 %	(1)%	(1)%	9 %

<sup>(1)</sup> Total constant currency revenues of \$223.9 billion for the nine months ended September 30, 2023 increased \$18.4 billion compared to \$205.5 billion in revenues, excluding hedging effect, for the nine months ended September 30, 2022.

EMEA revenue growth was unfavorably affected by changes in foreign currency exchange rates, primarily due to the U.S. dollar strengthening relative to the Turkish lira and the British pound, partially offset by the U.S. dollar weakening relative to the Euro.

APAC revenue growth was unfavorably affected by changes in foreign currency exchange rates, primarily due to the U.S. dollar strengthening relative to the Japanese yen.

Other Americas revenue growth was unfavorably affected by changes in foreign currency exchange rates, primarily due to the U.S. dollar strengthening relative to the Argentine peso.

## **Costs and Expenses**

### **Cost of Revenues**

The following table presents cost of revenues, including TAC (in millions, except percentages):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2023	2022	2023
TAC	\$ 11,826	\$ 12,642	\$ 36,030	\$ 36,900
Other cost of revenues	19,332	20,587	54,831	58,857
Total cost of revenues	<u>\$ 31,158</u>	<u>\$ 33,229</u>	<u>\$ 90,861</u>	<u>\$ 95,757</u>
Total cost of revenues as a percentage of revenues	45 %	43 %	44 %	43 %

Cost of revenues increased \$2.1 billion from the three months ended September 30, 2022 to the three months ended September 30, 2023 due to an increase in other cost of revenues and TAC of \$1.3 billion and \$816 million, respectively. Cost of revenues increased \$4.9 billion from the nine months ended September 30, 2022 to the nine months ended September 30,

2023, due to an increase in other cost of revenues and TAC of \$4.0 billion and \$870 million, respectively.

The increase in TAC from the three and nine months ended September 30, 2022 to the three and nine months ended September 30, 2023 was largely due to an increase in TAC paid to distribution partners, primarily driven by growth in revenues subject to TAC. The TAC rate decreased from 21.7% to 21.2% from the three months ended September 30, 2022 to the three months ended September 30, 2023 and decreased from 21.8% to 21.4% from the nine months ended September 30, 2022 to the nine months ended September 30, 2023 primarily due to a revenue mix shift from Google Network properties to Google Search & other properties. The TAC rate on Google Search & other revenues and the TAC rate on Google Network revenues were both substantially consistent from the three and nine months ended September 30, 2022 to the three and nine months ended September 30, 2023.

The increase in other cost of revenues from the three months ended September 30, 2022 to the three months ended September 30, 2023 was primarily due to increases in content acquisition costs, largely for YouTube. In addition, an overall increase in data center and other operations costs was partially offset by a reduction in depreciation expense due to the change in the estimated useful lives of our servers and certain network equipment.

The increase in other cost of revenues from the nine months ended September 30, 2022 to the nine months ended September 30, 2023 was primarily due to increases in content acquisition costs, largely for YouTube, and data center and other operations costs. The overall increase in data center and other operations costs includes \$723 million of charges related to employee severance associated with the reduction of our workforce and our office space

optimization efforts, partially offset by a reduction in depreciation expense due to the change in the estimated useful lives of our servers and certain network equipment.

### ***Research and Development***

The following table presents R&D expenses (in millions, except percentages):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2023	2022	2023
Research and development expenses	\$ 10,273	\$ 11,258	\$ 29,233	\$ 33,314
Research and development expenses as a percentage of revenues	15 %	15 %	14 %	15 %

R&D expenses increased \$985 million from the three months ended September 30, 2022 to the three months ended September 30, 2023, primarily driven by increases in compensation expenses of \$375 million and depreciation of \$223 million. The \$375 million increase in compensation expenses was largely due to an increase in stock-based compensation. The \$223 million increase in depreciation includes the benefit of the change in the estimated useful lives of our servers and network equipment.

R&D expenses increased \$4.1 billion from the nine months ended September 30, 2022 to the nine months ended September 30, 2023, primarily driven by increases in compensation expenses of \$2.4 billion and depreciation of \$517 million. The \$2.4 billion increase in compensation expenses was the result of a 6% increase in average headcount, after adjusting for roles affected by the reduction in workforce, \$847 million in employee severance charges

associated with the reduction of our workforce, and an increase in stock-based compensation.  
The \$517

million increase in depreciation includes the benefit of the change in the estimated useful lives of our servers and network equipment.

### ***Sales and Marketing***

The following table presents sales and marketing expenses (in millions, except percentages):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2022	2023	2022	2023
Sales and marketing expenses	\$ 6,929	\$ 6,884	\$ 19,384	\$ 20,198
Sales and marketing expenses as a percentage of revenues	10 %	9 %	9 %	9 %

Sales and marketing expenses decreased \$45 million from the three months ended September 30, 2022 to the three months ended September 30, 2023, primarily driven by a decrease in advertising and promotional activities of \$358 million, largely offset by an increase in compensation expenses of \$331 million due to a combination of factors, none of which were individually significant.

Sales and marketing expenses increased \$814 million from the nine months ended September 30, 2022 to the nine months ended September 30, 2023, primarily driven by an increase in compensation expenses of \$1.4 billion, partially offset by a decrease in advertising and promotional activities of \$558 million. The \$1.4 billion increase in compensation expenses was largely the result of \$494 million in employee severance charges associated with the reduction in our workforce in addition to a combination of other factors, none of which were individually significant.

### ***General and Administrative***

The following table presents general and administrative expenses (in millions, except percentages):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2023	2022	2023
General and administrative expenses	\$ 3,597	\$ 3,979	\$ 10,628	\$ 11,219
General and administrative expenses as a percentage of revenues	5 %	5 %	5 %	5 %

General and administrative expenses increased \$382 million from the three months ended September 30, 2022 to the three months ended September 30, 2023, primarily driven by an increase in charges related to legal matters of \$589 million.

General and administrative expenses increased \$591 million from the nine months ended September 30, 2022 to the nine months ended September 30, 2023, primarily driven by increases in charges related to legal matters of \$465 million and compensation expenses of

\$331 million, largely due to \$263 million in employee severance charges associated with the reduction in our workforce in addition to a combination of other factors, none of which were individually significant.

## ***Segment Profitability***

The following table presents segment operating income (loss) (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2023	2022	2023
Operating income (loss):				
Google Services	\$ 18,883	\$ 23,937	\$ 62,477	\$ 69,128
Google Cloud	(440)	266	(1,736)	852
Other Bets	(1,225)	(1,194)	(3,399)	(3,232)
Corporate costs, unallocated <sup>(1)</sup>	(83)	(1,666)	(660)	(6,152)
Total income from operations	<u>\$ 17,135</u>	<u>\$ 21,343</u>	<u>\$ 56,682</u>	<u>\$ 60,596</u>

<sup>(1)</sup> In addition to the Alphabet-level costs included in unallocated corporate costs, hedging gains (losses) related to revenue were \$638 million and \$(1) million for the three months ended September 30, 2022 and 2023, respectively, and \$1.3 billion and \$86 million for the nine months ended September 30, 2022 and 2023, respectively. For the three and nine months

ended September 30, 2023, unallocated corporate costs include charges related to the reductions in our workforce and office space exit charges totaling \$102 million and \$2.7 billion, respectively. In addition, for the three and nine months ended September 30, 2023, we incurred \$207 million in accelerated rent and accelerated depreciation. See Note 7 of the Notes to Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q for more information relating to our workforce reduction and other initiatives. See also Note 14 of the Notes to Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q for further information relating to our segments.

## **Google Services**

Google Services operating income increased \$5.1 billion from the three months ended September 30, 2022 to the three months ended September 30, 2023. The increase in operating income was primarily driven by an increase in revenues, partially offset by an increase in content acquisition costs and TAC. Additionally, operating income benefited from a reduction in costs driven by the change in the estimated useful lives of our servers and certain network equipment.

Google Services operating income increased \$6.7 billion from the nine months ended September 30, 2022 to the nine months ended September 30, 2023. The increase in operating income was primarily driven by an increase in revenues, partially offset by an increase in compensation expenses and content acquisition costs. Additionally, operating income benefited

from a reduction in costs driven by the change in the estimated useful lives of our servers and certain network equipment.

### ***Google Cloud***

Google Cloud operating income of \$266 million for the three months ended September 30, 2023 compared to an operating loss of \$440 million for the three months ended September 30, 2022 represents an increase of \$706 million. Operating income of \$852 million for the nine months ended September 30, 2023 compared to an operating loss of \$1.7 billion for the nine months ended September 30, 2022 represents an increase of \$2.6 billion. The increase in operating income was primarily driven by revenue growth, partially offset by an increase in compensation expenses. Additionally, operating income benefited from a reduction in costs driven by the change in the estimated useful lives of our servers and certain network equipment.

### ***Other Bets***

Other Bets operating loss decreased \$31 million from the three months ended September 30, 2022 to the three months ended September 30, 2023 due to a combination of factors, none of which were individually significant.

Other Bets operating loss decreased \$167 million from the nine months ended September 30, 2022 to the nine months ended September 30, 2023, primarily driven by a reduction in valuation-based compensation liabilities related to certain Other Bets.

### ***Other Income (Expense), Net***

The following table presents OI&E (in millions):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2022	2023	2022	2023
Other income (expense), net	\$ (902)	\$ (146)	\$ (2,501)	\$ 709

OI&E increased \$756 million from the three months ended September 30, 2022 to the three months ended September 30, 2023 primarily due to changes in interest income, and gains and losses on equity securities, debt securities and foreign currency exchange. In the three months ended September 30, 2023, we recognized \$1.1 billion of interest income. This was partially offset by \$503 million of net losses on debt securities, \$311 million net losses on foreign currency exchange, and \$224 million of net unrealized losses on marketable equity securities. In the three months ended September 30, 2022, we recognized \$731 million of net losses on debt securities and \$488 million of net unrealized losses on non-marketable equity securities. This was partially offset by \$615 million of interest income recognized.

OI&E increased \$3.2 billion from the nine months ended September 30, 2022 to the nine months ended September 30, 2023, primarily due to unrealized gains and losses on equity securities and changes in interest income. In the nine months ended September 30, 2023, we recognized \$2.8 billion of interest income. This was partially offset by \$678 million of net unrealized losses on non-marketable equity securities. In the nine months ended September 30, 2022, we recognized \$2.5 billion of net unrealized losses on marketable equity securities. This was partially offset by \$1.5 billion of interest income recognized.



See Note 6 of the Notes to Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q for further information.

### ***Provision for Income Taxes***

The following table presents provision for income taxes (in millions, except effective tax rate):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2023	2022	2023
Income before provision for income taxes	\$ 16,233	\$ 21,197	\$ 54,181	\$ 61,305
Provision for income taxes	\$ 2,323	\$ 1,508	\$ 7,833	\$ 8,197
Effective tax rate	14.3 %	7.1 %	14.5 %	13.4 %

On July 21, 2023 the IRS issued a rule change allowing taxpayers to temporarily apply the regulations in effect prior to 2022 related to U.S. federal foreign tax credits. This announcement only applies to foreign taxes paid or accrued in our fiscal years 2022 and 2023. Additionally, on September 8, 2023, the IRS issued a separate rule change with interim guidance on the capitalization and amortization of R&D expenses. A cumulative one-time adjustment applicable to prior periods for these tax rule changes was recorded in the third quarter of 2023.

The effective tax rate decreased from the three months ended September 30, 2022 to the three months ended September 30, 2023, reflecting the effect of the two tax rule changes, particularly the change related to foreign tax credits. The effect of these tax rule changes was partially offset by a decrease in the U.S. federal Foreign Derived Intangible Income tax deduction.

The effective tax rate decreased from the nine months ended September 30, 2022 to the nine months ended September 30, 2023, reflecting the effect of the two tax rule changes, particularly the change related to foreign tax credits. The effect of these tax rule changes was partially offset by changes in uncertain tax benefits, a decrease in the stock-based compensation-related tax benefit, and a decrease in the U.S. federal Foreign Derived Intangible Income tax deduction.

## **Financial Condition**

### ***Cash, Cash Equivalents, and Marketable Securities***

As of September 30, 2023, we had \$119.9 billion in cash, cash equivalents, and short-term marketable securities. Cash equivalents and marketable securities are comprised of time deposits, money market funds, highly liquid government bonds, corporate debt securities, mortgage-backed and asset-backed securities, and marketable equity securities.

### ***Sources, Uses of Cash and Related Trends***

Our principal sources of liquidity are cash, cash equivalents, and marketable securities, as well as the cash flow that we generate from operations. The primary use of capital continues to

be to invest for the long-term growth of the business. We regularly evaluate our cash and capital structure, including the size, pace, and form of capital return to stockholders.

The following table presents our cash flows (in millions):

	Nine Months Ended September 30,	
	2022	2023
Net cash provided by operating activities	\$ 67,881	\$ 82,831
Net cash used in investing activities	\$ (14,071)	\$ (20,896)
Net cash used in financing activities	\$ (52,128)	\$ (52,785)

### ***Cash Provided by Operating Activities***

Our largest source of cash provided by operations are advertising revenues generated by Google Search & other properties, Google Network properties, and YouTube properties. Additionally, we generate cash through sales of apps and in-app purchases, and hardware; and licensing and service fees, including fees received for Google Cloud offerings and subscription-based products.

Our primary uses of cash from operating activities include payments to distribution and Google Network partners, to employees for compensation, and to content providers. Other uses of cash from operating activities include payments to suppliers for hardware, to tax authorities for income taxes, and other general corporate expenditures.

Net cash provided by operating activities increased from the nine months ended September 30, 2022 to the nine months ended September 30, 2023 due to the increase in cash received from customers and the 2023 IRS payment deferral relief made available to taxpayers headquartered in designated counties in California, partially offset by increased cash payments for costs and expenses. On October 16, 2023, we made an estimated income tax payment to the IRS of \$10.5 billion that will be reflected in our fourth quarter operating cash flow.

### ***Cash Used in Investing Activities***

Cash provided by investing activities consists primarily of maturities and sales of investments in marketable and non-marketable securities. Cash used in investing activities consists primarily of purchases of marketable and non-marketable securities, purchases of property and equipment, and payments for acquisitions.

Net cash used in investing activities increased from the nine months ended September 30, 2022 to the nine months ended September 30, 2023 as a result of an increase in net purchases

of and maturities and sales of marketable securities, partially offset by a decrease in payments for acquisitions and intangible assets.

### ***Cash Used in Financing Activities***

Cash provided by financing activities consists primarily of proceeds from issuance of debt and proceeds from the sale of interest in consolidated entities. Cash used in financing activities consists primarily of repurchases of stock, net payments related to stock-based award activities, and repayments of debt.

Net cash used in financing activities increased from the nine months ended September 30, 2022 to the nine months ended September 30, 2023 primarily due to an increase in repurchases of stock partially offset by a decrease in net payments related to debt.

### ***Liquidity and Material Cash Requirements***

We expect existing cash, cash equivalents, short-term marketable securities, cash flows from operations and financing activities to continue to be sufficient to fund our operating activities and cash commitments for investing and financing activities for at least the next 12 months and thereafter for the foreseeable future.

### ***Capital Expenditures and Leases***

We make investments in land and buildings for data centers and offices and information technology assets through purchases of property and equipment and lease arrangements to provide capacity for the growth of our services and products.

#### **Capital Expenditures**

Our capital investments in property and equipment consist primarily of the following major categories:

- technical infrastructure, which consists of our investments in servers and network equipment for computing, storage, and networking requirements for ongoing business activities, including AI, (collectively referred to as our information technology assets) and data center land and building construction; and
- office facilities, ground-up development projects, and building improvements (also referred to as "fit-outs").

Construction in progress consists primarily of technical infrastructure and office facilities which have not yet been placed in service. The time frame from date of purchase to placement in service of these assets may extend from months to years. For example, our data center construction projects are generally multi-year projects with multiple phases, where we acquire qualified land and buildings, construct buildings, and secure and install information technology assets.

During the nine months ended September 30, 2022 and 2023, we spent \$23.9 billion and \$21.2 billion on capital expenditures, respectively. We expect to continue to invest in our technical infrastructure, including servers, network equipment, and data centers, over the remainder of 2023 and into 2024 to support the growth of our business and our long-term initiatives, in particular in support of AI. Depreciation of our property and equipment commences when the deployment of such assets are completed and are ready for our intended use. Land is not depreciated. For the nine months ended September 30, 2022 and 2023, our depreciation

and impairment expenses on property and equipment were \$11.2 billion and \$10.0 billion, respectively.

## Leases

For the nine months ended September 30, 2022 and 2023, we recognized total operating lease assets of \$3.4 billion and \$2.4 billion, respectively. As of September 30, 2023, the amount of total future lease payments under operating leases, which had a weighted average remaining lease term of 8.2 years, was \$17.9 billion. As of September 30, 2023, we have entered into leases that have not yet commenced with future lease payments of \$3.5 billion, that are not yet recorded on our Consolidated Balance Sheets. These leases will commence between 2023 and 2026 with non-cancelable lease terms of 1 to 25 years. As of September 30, 2023, our actions to optimize our office space did not affect our operating lease obligations.

For the nine months ended September 30, 2022 and 2023, our operating lease expenses (including variable lease costs) were \$2.7 billion and \$3.4 billion, respectively. Finance lease costs were not material for the nine months ended September 30, 2022 and 2023.

### ***Financing***

We have a short-term debt financing program of up to \$10.0 billion through the issuance of commercial paper. Net proceeds from this program are used for general corporate purposes. As of September 30, 2023, we had no commercial paper outstanding.

As of September 30, 2023, we had \$10.0 billion of revolving credit facilities, \$4.0 billion expiring in April 2024 and \$6.0 billion expiring in April 2028. The interest rates for all credit facilities are determined based on a formula using certain market rates, as well as our progress

toward the achievement of certain sustainability goals. No amounts have been borrowed under the credit facilities.

As of September 30, 2023, we had senior unsecured notes outstanding with a total carrying value of \$12.9 billion. See Note 5 of the Notes to Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q for further information on our debt.

We primarily utilize contract manufacturers for the assembly of our servers used in our technical infrastructure and hardware products we sell. We have agreements where we may purchase components directly from suppliers and then supply these components to contract manufacturers for use in the assembly of the servers and hardware products. Certain of these arrangements result in a portion of the cash received from and paid to the contract manufacturers to be presented as financing activities in the Consolidated Statements of Cash Flows included in Item 1 of this Quarterly Report on Form 10-Q.

### ***Share Repurchase Program***

During the three and nine months ended September 30, 2023, we repurchased and subsequently retired 122 million and 410 million shares for \$15.9 billion and \$46.2 billion, respectively. Of the aggregate amount repurchased and subsequently retired during the three months ended September 30, 2023, 14 million shares were Class A stock for \$1.8 billion and 108 million shares were Class C stock for \$14.1 billion. Of the aggregate amount repurchased and subsequently retired during the nine months ended September 30, 2023, 51 million shares were Class A stock for \$5.7 billion and 359 million shares were Class C stock for \$40.4 billion.

In April 2023, the Board of Directors of Alphabet authorized the company to repurchase up to an additional \$70.0 billion of its Class A and Class C shares. As of September 30, 2023,

\$52.3 billion remains available for Class A and Class C share repurchases.

See Note 10 of the Notes to Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q.

The U.S. Inflation Reduction Act of 2022 was enacted on August 16, 2022 and requires a one percent excise tax on certain share repurchases in excess of shares issued for employee compensation made after December 31, 2022. We do not expect this provision to have a material effect on our consolidated financial statements.

### ***European Commission Fines***

In 2017, 2018 and 2019, the EC announced decisions that certain actions taken by Google infringed European competition law and imposed fines of €2.4 billion (\$2.7 billion as of June 27, 2017), €4.3 billion (\$5.1 billion as of June 30, 2018), and €1.5 billion (\$1.7 billion as of March 20, 2019), respectively. On September 14, 2022, the General Court reduced the 2018 fine from €4.3 billion to €4.1 billion. We subsequently filed an appeal to the European Court of Justice.

While each EC decision is under appeal, we included the fines in accrued expenses and other current liabilities on our Consolidated Balance Sheets as we provided bank guarantees (in lieu of a cash payment) for the fines. For further details, see Note 9 of the Notes to Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q.

## **Taxes**

As of September 30, 2023, we had short-term and long-term income taxes payable of \$3.6 billion and \$2.1 billion related to a one-time transition tax payable incurred as a result of the U.S. Tax Cuts and Jobs Act ("Tax Act"). As permitted by the Tax Act, we will pay the transition tax in annual interest-free installments through 2025. We also have long-term taxes payable of \$5.9 billion primarily related to uncertain tax positions as of September 30, 2023.

As a result of the 2023 IRS payment deferral relief made available to taxpayers headquartered in designated counties in California, we postponed our second and third quarter U.S. federal income tax payments. On October 16, 2023, we made an estimated income tax payment to the IRS of \$10.5 billion. See Note 6 of the Notes to Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q.

## ***Purchase Commitments***

As of September 30, 2023, we had material contractual obligations of \$44.3 billion, of which \$29.4 billion was short-term. These amounts primarily consist of purchase orders for certain technical infrastructure as well as the non-cancelable portion or the minimum cancellation fee in certain agreements related to commitments to purchase licenses, including content licenses, inventory and network capacity. For those agreements with variable terms, we do not estimate the non-cancelable obligation beyond any minimum quantities and/or pricing as

of September 30, 2023. In certain instances, the amount of our contractual obligations may change based on the expected timing of order fulfillment from our suppliers. For more information related to our content licenses, see Note 9 of the Notes to Consolidated Financial Statements included in Item I of this Quarterly Report on Form 10-Q.

In addition we regularly enter into multi-year, non-cancellable agreements to purchase renewable energy and energy attributes, such as renewable energy certificates. These agreements do not include a minimum dollar commitment. The amounts to be paid under these agreements are based on the actual volumes to be generated and are not readily determinable.

## **Critical Accounting Estimates**

See Part II, Item 7, "Critical Accounting Estimates" in our Annual Report on Form 10-K for the year ended December 31, 2022.

## **Available Information**

Our website is located at [www.abc.xyz](http://www.abc.xyz), and our investor relations website is located at [www.abc.xyz/investor](http://www.abc.xyz/investor). Access to our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and our Proxy Statements, and any amendments to these reports, is available on our investor relations website, free of charge, after we file or furnish them with the SEC and they are available on the SEC's website at [www.sec.gov](http://www.sec.gov).

We webcast via our investor relations website our earnings calls and certain events we participate in or host with members of the investment community. Our investor relations website also provides notifications of news or announcements regarding our financial performance and other items of interest to our investors, including SEC filings, investor events, press and

earnings releases, and blogs. We also share Google news and product updates on Google's Keyword blog at <https://www.blog.google/>, which may be of interest or material to our investors. Further, corporate governance information, including our certificate of incorporation, bylaws, governance guidelines, board committee charters, and code of conduct, is also available on our investor relations website under the heading "Governance." The content of our websites are not incorporated by reference into this Quarterly Report on Form 10-Q or in any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

For quantitative and qualitative disclosures about market risk, refer to Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report on Form 10-K for the year ended December 31, 2022.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act, as of the end of the period covered by this Quarterly Report on Form 10-Q.

Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of September 30, 2023, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

## **Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **Limitations on Effectiveness of Controls and Procedures**

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource

constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

For a description of our material pending legal proceedings, see Note 9 "Commitments and Contingencies - Legal Matters" of the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

### ITEM 1A. RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties, including those described in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2022, which could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our stock.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

#### Issuer Purchases of Equity Securities

The following table presents information with respect to Alphabet's repurchases of Class A and Class C stock during the quarter ended September 30, 2023.

Period	Total Number of Class A Shares Purchased (in thousands) <sup>(1)</sup>	Total Number of Class C Shares Purchased (in thousands) <sup>(1)</sup>	Average Price Paid per Class A Share <sup>(2)</sup>	Average Price Paid per Class C Share <sup>(2)</sup>	Total Number of Shares Purchased as Part of Publicly Announced Programs (in thousands) <sup>(1)</sup>	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (in millions)
July 1 - 31	3,647	36,664	\$ 124.11	\$ 125.22	40,311	\$ 63,066
August 1 - 31	4,043	39,758	\$ 132.61	\$ 132.16	43,801	\$ 57,320
September 1 - 30	6,028	31,408	\$ 135.44	\$ 135.90	37,436	\$ 52,267
<b>Total</b>	<b>13,718</b>	<b>107,830</b>			<b>121,548</b>	

<sup>(1)</sup> Repurchases are being executed from time to time, subject to general business and market conditions and other investment opportunities, through open market purchases or privately negotiated transactions, including through Rule 10b5-1 plans. The repurchase program does not have an expiration date. See Note 10 in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information related to share repurchases.

<sup>(2)</sup> Average price paid per share includes costs associated with the repurchases.

## ITEM 5. OTHER INFORMATION

### 10b5-1 Trading Plans

During the fiscal quarter ended September 30, 2023, the following Section 16 officer adopted, modified or terminated a “Rule 10b5-1 trading arrangement” (as defined in Item 408 of Regulation S-K of the Exchange Act):

- Sundar Pichai, Chief Executive Officer, together with the Pichai Family Foundation, adopted a new trading plan on August 31, 2023 (with the first trade under the new plan scheduled for as early as December 6, 2023). The trading plan will be effective until December 20, 2024 to sell an aggregate of 636,000 shares of Class C Capital Stock).

There were no “non-Rule 10b5-1 trading arrangements” (as defined in Item 408 of Regulation S-K of the Exchange Act) adopted, modified or terminated during the fiscal quarter ended September 30, 2023 by our directors and Section 16 officers. Each of the Rule 10b5-1 trading arrangements are in accordance with our Policy Against Insider Trading and actual sale transactions made pursuant to such trading arrangements will be disclosed publicly in Section 16 filings with the SEC in accordance with applicable securities laws, rules and regulations.

## **Required Disclosure Pursuant to Section 13(r) of the Exchange Act**

During the quarter ended September 30, 2023, Google LLC, a subsidiary of Alphabet, filed a notification with the Russian Federal Security Service (FSB) pursuant to Russian encryption control requirements, which must be complied with prior to the import of covered items. Neither we nor our subsidiaries generated any gross revenues or net profits directly from such activity and neither we nor our subsidiaries sell to the FSB. In the ordinary course of its business, Alphabet expects that Google LLC will continue to file these notifications as required under Russian law.

**ITEM 6. EXHIBITS**

Exhibit Number	Description	Incorporated by reference herein	
		Form	Date
31.01 *	<u>Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>		
31.02 *	<u>Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>		
32.01 ‡	<u>Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>		
101.INS *	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.		
101.SCH *	Inline XBRL Taxonomy Extension Schema Document		
101.CAL *	Inline XBRL Taxonomy Extension Calculation Linkbase Document		
101.DEF *	Inline XBRL Taxonomy Extension Definition Linkbase Document		
101.LAB *	Inline XBRL Taxonomy Extension Label Linkbase Document		
101.PRF *	Inline XRRI Taxonomy Extension Presentation		

10 of 10 [Home](#) [About](#) [Technology](#) [Education](#) [Contact](#)

Linkbase Document

**104 Cover Page Interactive Data File (formatted as  
Inline XBRL and contained in Exhibit 101)**

\* Filed herewith.

‡ Furnished herewith.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

October 24, 2023

### ALPHABET INC.

By: /s/ RUTH M. PORAT

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Ruth M. Porat

**President and Chief Investment Officer; Chief Financial Officer**

October 24, 2023

### ALPHABET INC.

By: /s/ AMIE THUENER O'TOOLE

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Amie Thuener O'Toole

**Vice President, Corporate Controller and Principal Accounting Officer**

