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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 March 31, 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 April 18, 2023, there were 5,941 million shares of Alphabet's Class A stock outstanding, 882 million shares of Alphabet's Class B stock outstanding, and 5,874 million shares of Alphabet's Class C stock outstanding.

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Alphabet Inc.

**Alphabet Inc.  
Form 10-Q  
For the Quarterly Period Ended March 31, 2023**

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## Note About Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. 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 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 life 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, and in particular, the risks discussed in Part I, Item 1A, "Risk Factors" 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.

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Alphabet Inc.

**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**Alphabet Inc.  
CONSOLIDATED BALANCE SHEETS**

(in millions, except par value per share amounts)

	<b>As of December 31, 2022</b>	<b>As of March 31, 2023</b>		
	(unaudited)			
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 21,879	\$ 25,924		
Marketable securities	91,883	89,178		
Total cash, cash equivalents, and marketable securities	113,762	115,102		
Accounts receivable, net	40,258	36,036		
Inventory	2,670	2,315		
Other current assets	8,105	8,532		
Total current assets	164,795	161,985		
Non-marketable securities	30,492	31,213		
Deferred income taxes	5,261	6,885		
Property and equipment, net	112,668	117,560		
Operating lease assets	14,381	14,447		
Intangible assets, net	2,084	1,968		
Goodwill	28,960	28,994		
Other non-current assets	6,623	6,439		
Total assets	<b>\$ 365,264</b>	<b>\$ 369,491</b>		
<b>Liabilities and Stockholders' Equity</b>				
Current liabilities:				
Accounts payable	\$ 5,128	\$ 4,184		

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Accrued compensation and benefits	14,028	9,954
Accrued expenses and other current liabilities	37,866	43,185
Accrued revenue share	8,370	7,816
Deferred revenue	3,908	3,715
<b>Total current liabilities</b>	<b>69,300</b>	<b>68,854</b>
Long-term debt	14,701	13,697
Deferred revenue, non-current	599	610
Income taxes payable, non-current	9,258	9,722
Deferred income taxes	514	542
Operating lease liabilities	12,501	12,799
Other long-term liabilities	2,247	2,373
<b>Total liabilities</b>	<b>109,120</b>	<b>108,597</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 12,722 (Class A 5,943, Class B 883, Class C 5,896) shares issued and outstanding	68,184	70,269
Accumulated other comprehensive income (loss)	(7,603)	(6,000)
<b>Retained earnings</b>	<b>195,563</b>	<b>196,625</b>

Total stockholders' equity	256,144	260,894
Total liabilities and stockholders' equity	\$ 365,264	\$ 369,491

See accompanying notes.

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Alphabet Inc.

**Alphabet Inc.  
CONSOLIDATED STATEMENTS OF INCOME**

(in millions, except per share amounts; unaudited)

	Three Months Ended March 31,	
	2022	2023
Revenues	\$ 68,011	\$ 69,787
Costs and expenses:		
Cost of revenues	29,599	30,612
Research and development	9,119	11,468
Sales and marketing	5,825	6,533
General and administrative	3,374	3,759
Total costs and expenses	<u>47,917</u>	<u>52,372</u>
Income from operations	20,094	17,415
Other income (expense), net	(1,160)	790
Income before income taxes	<u>18,934</u>	<u>18,205</u>
Provision for income taxes	2,498	3,154
Net income	<u><u>\$ 16,436</u></u>	<u><u>\$ 15,051</u></u>
Basic net income per share of Class A, Class B, and Class C stock	\$ 1.24	\$ 1.18
Diluted net income per share of Class A, Class B, and Class C stock	\$ 1.23	\$ 1.17

See accompanying notes.



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Alphabet Inc.

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

(in millions; unaudited)

	Three Months Ended March 31,	
	2022	2023
Net income	\$ 16,436	\$ 15,051
Other comprehensive income (loss):		
Change in foreign currency translation adjustment	39	596
Available-for-sale investments:		
Change in net unrealized gains (losses)	(2,478)	866
Less: reclassification adjustment for net (gains) losses included in net income	148	292
Net change, net of income tax benefit (expense) of \$633 and \$(330)	<u>(2,330)</u>	<u>1,158</u>
Cash flow hedges:		
Change in net unrealized gains (losses)	114	(74)
Less: reclassification adjustment for net (gains) losses included in net income	(249)	(77)
Net change, net of income tax benefit (expense) of \$44 and \$30	<u>(135)</u>	<u>(151)</u>
Other comprehensive income (loss)	(2,426)	1,603
Comprehensive income	<u>\$ 14,010</u>	<u>\$ 16,654</u>

See accompanying notes.



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

**Three Months Ended March 31, 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	31	7	0	0	7
Stock-based compensation expense	0	4,547	0	0	4,547
Tax withholding related to vesting of restricted stock units and other	0	(2,895)	0	0	(2,895)
Repurchases of stock	(98)	(601)	0	(12,699)	(13,300)
Net income	0	0	0	16,436	16,436
Other comprehensive income (loss)	0	0	(2,426)	0	(2,426)
Balance as of March 31, 2022	<u>13,175</u>	<u>\$ 62,832</u>	<u>\$ (4,049)</u>	<u>\$ 195,221</u>	<u>\$ 254,004</u>

**Three Months Ended March 31, 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	30	0	0	0	0
Stock-based compensation expense	0	5,313	0	0	5,313
Tax withholding related to vesting of restricted stock units and other	0	(2,093)	0	0	(2,093)
Repurchases of stock	(157)	(1,135)	0	(13,989)	(15,124)
Net income	0	0	0	15,051	15,051
Other comprehensive income (loss)	0	0	1,603	0	1,603
Balance as of March 31, 2023	<u>12,722</u>	<u>\$ 70,269</u>	<u>\$ (6,000)</u>	<u>\$ 196,625</u>	<u>\$ 260,894</u>

See accompanying notes.



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

(in millions; unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2022</b>	<b>2023</b>
<b>Operating activities</b>		
Net income	\$ 16,436	\$ 15,051
Adjustments:		
Depreciation and impairment of property and equipment	3,591	3,060
Amortization and impairment of intangible assets	191	126
Stock-based compensation expense	4,504	5,284
Deferred income taxes	(2,090)	(1,854)
Loss (gain) on debt and equity securities, net	1,437	(84)
Other	140	553
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	4,364	4,454
Income taxes, net	3,820	4,069
Other assets	(776)	(746)
Accounts payable	(2,373)	(1,105)
Accrued expenses and other liabilities	(3,216)	(4,496)
Accrued revenue share	(828)	(602)
Deferred revenue	(94)	(201)
Net cash provided by operating activities	25,106	23,509
<b>Investing activities</b>		
Purchases of property and equipment	(9,786)	(6,289)

Purchases of marketable securities	(28,462)	(14,227)
Maturities and sales of marketable securities	29,779	18,327
Purchases of non-marketable securities	(776)	(626)
Maturities and sales of non-marketable securities	12	36
Acquisitions, net of cash acquired, and purchases of intangible assets	(173)	(42)
Other investing activities	355	(125)
Net cash used in investing activities	<u>(9,051)</u>	<u>(2,946)</u>
<b>Financing activities</b>		
Net payments related to stock-based award activities	(2,916)	(1,989)
Repurchases of stock	(13,300)	(14,557)
Proceeds from issuance of debt, net of costs	16,422	6,927
Repayments of debt	(16,420)	(6,952)
Proceeds from sale of interest in consolidated entities, net	0	3
Net cash used in financing activities	<u>(16,214)</u>	<u>(16,568)</u>
Effect of exchange rate changes on cash and cash equivalents	100	50
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(59)</b>	<b>4,045</b>
Cash and cash equivalents at beginning of period	20,945	21,879
<b>Cash and cash equivalents at end of period</b>	<b>\$ 20,886</b>	<b>\$ 25,924</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 quarter ended March 31, 2023, the effect of this change in estimate was a reduction in depreciation expense of \$988 million and an increase in net income of \$770 million, or \$0.06 per basic and \$0.06 per diluted share, for the three months ended March 31, 2023.

## **Stock Split Effectuated in the Form of a Stock Dividend (“Stock Split”)**

On July 15, 2022, we executed a 20-for-one stock split of our Class A, Class B, and Class C stock. All prior period references made to share or per share amounts in the accompanying consolidated financial statements and applicable disclosures prior to the effective date have been retroactively adjusted to reflect the effects of the Stock Split.

## **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 March 31,	
	2022	2023
Google Search & other	\$ 39,618	\$ 40,359
YouTube ads	6,869	6,693
Google Network	8,174	7,496
Google advertising	54,661	54,548
Google other	6,811	7,413
Google Services total	61,472	61,961
Google Cloud	5,821	7,454
Other Bets	440	288
Hedging gains (losses)	278	84
Total revenues	\$ 68,011	\$ 69,787

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

	Three Months Ended March 31,	
	2022	2023
United States	\$ 31,733	47 %
EMEA <sup>(1)</sup>	20,317	30
APAC <sup>(1)</sup>	11,841	17
Other Americas <sup>(1)</sup>	3,842	6
Hedging gains (losses)	278	0
Total revenues	<u>\$ 68,011</u>	<u>100 %</u>
	<u>\$ 69,787</u>	<u>100 %</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 March 31, 2023, we had \$61.7 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 \$1.6 billion was recognized as revenues during the three months ended March 31, 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>(3)</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>

- (1) The majority of our time deposits are domestic deposits.
- (2) Represents gross unrealized gains and losses for debt securities recorded to accumulated other comprehensive income (AOCI).

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## Alphabet Inc.

- (3) 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.



Money market funds	Level 1		\$ 10,604	\$ 10,604	\$ 0
Current marketable equity securities <sup>(2)</sup>	Level 1		3,907	0	3,907
Mutual funds	Level 2		315	0	315
Government bonds	Level 2		2,006	672	1,334
Corporate debt securities	Level 2		3,660	31	3,629
Mortgage-backed and asset-backed securities	Level 2		1,688	0	1,688
Total investments with fair value change recorded in net income			\$ 22,180	\$ 11,307	\$ 10,873
Cash			0	9,691	0
<b>Total</b>	<b>\$ 86,522</b>	<b>\$ 222</b>	<b>\$ (3,513)</b>	<b>\$ 105,411</b>	<b>\$ 25,924</b>
					<b>\$ 89,178</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 \$920 million as of March 31, 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 March 31, 2023 the carrying value of our non-marketable equity securities was \$29.1 billion, of which \$10.7 billion were re-measured at fair value during the three months ended March 31, 2023 and primarily classified as Level 2 investments.

## 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 March 31, 2023
Due in 1 year or less	\$ 11,712
Due in 1 year through 5 years	46,052
Due in 5 years through 10 years	15,228
Due after 10 years	11,964
<b>Total</b>	<b>\$ 84,956</b>

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 March 31, 2023					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Government bonds	\$ 12,234	\$ (312)	\$ 14,159	\$ (918)	\$ 26,393	\$ (1,230)
Corporate debt securities	4,427	(93)	19,011	(1,072)	23,438	(1,165)
Mortgage-backed and asset-backed securities	2,597	(94)	11,212	(944)	13,809	(1,038)
Total	<u>\$ 19,258</u>	<u>\$ (499)</u>	<u>\$ 44,382</u>	<u>\$ (2,934)</u>	<u>\$ 63,640</u>	<u>\$ (3,433)</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 other income (expense), net (in millions):

	<b>Three Months Ended March 31,</b>	
	<b>2022</b>	<b>2023</b>
Unrealized gain (loss) on fair value option debt securities	\$ (202)	\$ 145
Gross realized gain on debt securities	40	57
Gross realized loss on debt securities	(271)	(492)
(Increase)/decrease in allowance for credit losses	66	(3)
<b>Total gain (loss) on debt securities recognized in other income (expense), net</b>	<b>\$ (367)</b>	<b>\$ (293)</b>

## 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 other income (expense), net, in the Consolidated Statements of Income. See Note 6 for further details on other income (expense), net.

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

	As of December 31, 2022			As of March 31, 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	\$ 5,720	\$ 16,509	\$ 22,229
Cumulative net gain (loss) <sup>(1)</sup>	(608)	12,372	11,764	(578)	12,613	12,035
Carrying value	<u>\$ 5,156</u>	<u>\$ 28,529</u>	<u>\$ 33,685</u>	<u>\$ 5,142</u>	<u>\$ 29,122</u>	<u>\$ 34,264</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 \$17.8 billion gains and \$5.1 billion losses (including impairments) as of March 31, 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 other income (expense), net are summarized below (in millions):

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2022</b>	<b>2023</b>
Realized net gain (loss) on equity securities sold during the period	\$ (74)	\$ 105
Unrealized net gain (loss) on marketable equity securities	(1,456)	51
Unrealized net gain (loss) on non-marketable equity securities <sup>(1)</sup>	460	221
<b>Total gain (loss) on equity securities in other income (expense), net</b>	<b>\$ (1,070)</b>	<b>\$ 377</b>

- <sup>(1)</sup> Unrealized gain (loss) on non-marketable equity securities accounted for under the measurement alternative is comprised of \$838 million and \$915 million of upward adjustments for three months ended March 31, 2022 and 2023, respectively, and \$378 million and \$694 million of downward adjustments (including impairments) for three months ended March 31, 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.

	<b>Equity Securities Sold</b>	
	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2022</b>	<b>2023</b>
Total sale price	\$ 364	\$ 312
Total initial cost	260	211
Cumulative net gain (loss)	\$ 104	\$ 101

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

As of December 31, 2022 and March 31, 2023 equity securities accounted for under the equity method had a carrying value of approximately \$1.5 billion and \$1.6 billion, respectively. Our share of gains and losses, including impairments, are included as a component of other income (expense), net, in the Consolidated Statements of Income. See Note 6 for further details on other income (expense), net.



## **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 March 31, 2023 the net accumulated loss on our foreign currency cash flow hedges before tax effect was \$55 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 other income (expense), net, 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 other income (expense), net.

### ***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 other income (expense), net.

### ***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 other income (expense), net 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 other income (expense), net. 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 March 31, 2023</u>
<b>Derivatives designated as hedging instruments:</b>		
Foreign exchange contracts		
Cash flow hedges	\$ 15,972	\$ 17,140
Fair value hedges	\$ 2,117	\$ 1,439
Net investment hedges	\$ 8,751	\$ 9,036
<b>Derivatives not designated as hedging instruments:</b>		
Foreign exchange contracts	\$ 34,979	\$ 33,715
Other contracts	\$ 7,932	\$ 8,423

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

	As of December 31, 2022		As of March 31, 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	\$ 111	\$ 510
<b>Derivatives not designated as hedging instruments:</b>				
Foreign exchange contracts	365	207	284	201
Other contracts	40	47	48	65
Total derivatives not designated as hedging instruments	405	254	332	266
<b>Total</b>	<b>\$ 676</b>	<b>\$ 810</b>	<b>\$ 443</b>	<b>\$ 776</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 March 31,	
	2022	2023
<b>Derivatives in cash flow hedging relationship:</b>		
Foreign exchange contracts		
Amount included in the assessment of effectiveness	\$ 135	\$ (138)
Amount excluded from the assessment of effectiveness	(15)	47
<b>Derivatives in net investment hedging relationship:</b>		
Foreign exchange contracts		
Amount included in the assessment of effectiveness	149	(215)
Total	\$ 269	\$ (306)

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 March 31,			
	2022		2023	
	Revenues	Other income (expense), net	Revenues	Other income (expense), net
Total amounts in the Consolidated Statements of Income	\$ 68,011	\$ (1,160)	\$ 69,787	\$ 790
<b>Effect of cash flow hedges:</b>				
Foreign exchange contracts				
Amount reclassified from AOCI to income	\$ 297	\$ 0	\$ 88	\$ 0
Amount excluded from the assessment of effectiveness (amortized)	(19)	0	(4)	0
<b>Effect of fair value hedges:</b>				
Foreign exchange contracts				
Hedged items	0	13	0	32
Derivatives designated as hedging instruments	0	(12)	0	(32)
Amount excluded from the assessment of effectiveness	0	1	0	5
<b>Effect of net investment hedges:</b>				
Foreign exchange contracts				

Amount excluded from the assessment of effectiveness	0	12	0	51
<b>Effect of non designated hedges:</b>				
Foreign exchange contracts	0	(247)	0	30
Other contracts	0	38	0	3
Total gains (losses)	<u>\$ 278</u>	<u>\$ (195)</u>	<u>\$ 84</u>	<u>\$ 89</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 March 31, 2023**

							<b>Gross Amounts Not Offset in the Consolidated Balance Sheets, but Have Legal Rights to Offset</b>		<b>Net Amounts</b>
	<b>Gross Amounts Recognized</b>	<b>Gross Amounts Offset in the Consolidated Balance Sheets</b>	<b>Net Amounts Presented in the Consolidated Balance Sheets</b>	<b>Financial Instruments<sup>(1)</sup></b>	<b>Cash and Non-Cash Collateral Received or Pledged</b>				
Derivatives assets	\$ 525	\$ (82)	\$ 443	\$ (368)	\$ (34)				\$ 41
Derivatives liabilities	\$ 858	\$ (82)	\$ 776	\$ (368)	\$ (24)				\$ 384

<sup>(1)</sup> The balances as of December 31, 2022 and March 31, 2023 were related to derivative 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 March 31, 2023, assets that can only be used to settle obligations of these VIEs were \$4.1 billion and \$3.2 billion, respectively, and the liabilities for which creditors only have recourse to the VIEs were \$2.6 billion and \$2.5 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 \$3.7 billion as of December 31, 2022 and March 31, 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 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. We have determined that the single source of our exposure to these VIEs is our capital investments in them. The carrying value and maximum exposure of these unconsolidated VIEs were \$2.7 billion and \$2.8 billion, respectively, as of December 31, 2022 and \$2.6 billion and \$2.7 billion, respectively, as of March 31, 2023.

## **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 March 31, 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 March 31, 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	2,208
<b>Total debt</b>				<b>15,142</b>	<b>15,208</b>
Unamortized discount and debt issuance costs				(143)	(140)
Less: Current portion of long-term notes <sup>(2)</sup>				0	(999)
Less: Current portion future finance lease payments, net and other current debt <sup>(1)(2)</sup>				(298)	(372)
<b>Total long-term debt</b>				<b>\$ 14,701</b>	<b>\$ 13,697</b>

- (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 \$10.2 billion as of December 31, 2022 and March 31, 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 March 31, 2023, we had \$10.0 billion of revolving credit facilities, \$4.0 billion expiring in April 2023 and \$6.0 billion expiring in April 2026. In April 2023, we entered into a new \$4.0 billion revolving credit facility expiring in April 2024. We also terminated the existing \$6.0 billion revolving credit facility expiring in April 2026 and entered into a new \$6.0 billion revolving credit facility 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 were outstanding under the credit facilities as of December 31, 2022 and March 31, 2023.

## Note 6. Supplemental Financial Statement Information

### Accounts Receivable

The allowance for credit losses on accounts receivable was \$754 million and \$743 million as of December 31, 2022 and March 31, 2023, respectively.

## Property and Equipment, Net

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

	As of December 31, 2022	As of March 31, 2023
Land and buildings	\$ 66,897	\$ 67,948
Information technology assets	66,267	68,577
Construction in progress	27,657	30,573
Leasehold improvements	10,575	11,011
Furniture and fixtures	314	326
Property and equipment, gross	<hr/> 171,710	178,435
Less: accumulated depreciation	<hr/> (59,042)	(60,875)
Property and equipment, net	<hr/> <hr/> \$ 112,668	<hr/> <hr/> \$ 117,560

## 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 March 31, 2023
European Commission fines <sup>(1)</sup>	\$ 9,106	\$ 9,354
Income taxes payable, net	1,632	5,217
Accrued customer liabilities	3,619	3,486
Accrued purchases of property and equipment	3,019	3,807
Current operating lease liabilities	2,477	2,625
Other accrued expenses and current liabilities	<u>18,013</u>	<u>18,696</u>
<b>Accrued expenses and other current liabilities</b>	<b>\$ 37,866</b>	<b>\$ 43,185</b>

- <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.

## **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	39	(2,478)	129	(2,310)
Amounts excluded from the assessment of hedge effectiveness recorded in AOCI	0	0	(15)	(15)
Amounts reclassified from AOCI	0	148	(249)	(101)
Other comprehensive income (loss)	39	(2,330)	(135)	(2,426)
Balance as of March 31, 2022	<u>\$ (2,267)</u>	<u>\$ (2,094)</u>	<u>\$ 312</u>	<u>\$ (4,049)</u>

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## Alphabet Inc.

	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, 2022	\$ (4,142)	\$ (3,477)	\$ 16	\$ (7,603)
Other comprehensive income (loss) before reclassifications	596	866	(121)	1,341
Amounts excluded from the assessment of hedge effectiveness recorded in AOCI	0	0	47	47
Amounts reclassified from AOCI	0	292	(77)	215
Other comprehensive income (loss)	596	1,158	(151)	1,603
Balance as of March 31, 2023	<u>\$ (3,546)</u>	<u>\$ (2,319)</u>	<u>\$ (135)</u>	<u>\$ (6,000)</u>

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	
		March 31,	
Unrealized gains (losses) on available-for-sale investments			
Other income (expense), net		\$ (190)	\$ (374)
Benefit (provision) for income taxes		42	82
Net of income tax		(148)	(292)
Unrealized gains (losses) on cash flow hedges			
Foreign exchange contracts	Revenue	297	88
Interest rate contracts	Other income (expense), net	2	2
	Benefit (provision) for income taxes	(50)	(13)
	Net of income tax	249	77
Total amount reclassified, net of income tax		\$ 101	\$ (215)

### Other Income (Expense), Net

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

	Three Months Ended March 31,	
	2022	2023
Interest income	\$ 414	\$ 797
Interest expense <sup>(1)</sup>	(83)	(80)
Foreign currency exchange gain (loss), net	(73)	(210)
Gain (loss) on debt securities, net	(367)	(293)
Gain (loss) on equity securities, net	(1,070)	377
Performance fees	233	118
Income (loss) and impairment from equity method investments, net	(89)	(51)
Other	(125)	132
Other income (expense), net	<u>\$ (1,160)</u>	<u>\$ 790</u>

<sup>(1)</sup> Interest expense is net of interest capitalized of \$34 million and \$40 million for the three months ended March 31, 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, and as a result in the first quarter of 2023 we recorded employee severance and related charges of \$2.0 billion, representing the majority of expected costs associated with this action. In addition, we are taking actions to optimize our global office space, and as a result, we recorded charges related to office space reductions of \$564 million in the first quarter of 2023. We may incur additional charges in the future as we further evaluate our real estate needs.

These severance and office space charges are included within our consolidated statements of income for the three months ended March 31, 2023 as follows (in millions):

	Severance and Related <sup>(1)</sup>	Office Space	Total
Cost of revenues	\$ 461	\$ 220	\$ 681
Research and development	835	247	1,082
Sales and marketing	445	35	480
General and administrative	253	62	315
<b>Total charges</b>	<b>\$ 1,994</b>	<b>\$ 564</b>	<b>\$ 2,558</b>

<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 three months ended March 31, 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>	1,582
Cash payments	(396)
Balance as of March 31, 2023 <sup>(2)</sup>	<u><u>\$ 1,186</u></u>

<sup>(1)</sup> Excludes non-cash stock-based compensation of \$412 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 three months ended March 31, 2023 were as follows (in millions):

	<b>Google Services</b>	<b>Google Cloud</b>	<b>Other Bets</b>	<b>Total</b>
Balance as of December 31, 2022	\$ 20,847	\$ 7,205	\$ 908	\$ 28,960
Acquisitions	11	0	0	11
Foreign currency translation and other adjustments	50	2	(29)	23
Balance as of March 31, 2023	<u>\$ 20,908</u>	<u>\$ 7,207</u>	<u>\$ 879</u>	<u>\$ 28,994</u>

## Other Intangible Assets

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

	As of December 31, 2022			As of March 31, 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	\$ 1,110	\$ 366	\$ 744
Customer relationships	862	235	627	862	270	592
Trade names and other	527	120	407	528	138	390
Total definite-lived intangible assets	2,553	709	1,844	2,500	774	1,726
Indefinite-lived intangible assets	240	0	240	242	0	242
<b>Total intangible assets</b>	<b>\$ 2,793</b>	<b>\$ 709</b>	<b>\$ 2,084</b>	<b>\$ 2,742</b>	<b>\$ 774</b>	<b>\$ 1,968</b>

Amortization expense relating to intangible assets was \$191 million and \$126 million for the three months ended March 31, 2022 and 2023, respectively.

Expected amortization expense of definite-lived intangible assets held as of March 31, 2023 was as follows (in millions):

Remainder of 2023	\$	343
2024		443
2025		314
2026		236
2027		153
Thereafter		237
Total	\$	<u>1,726</u>

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

### **Commitments**

We have content licensing agreements with future fixed or minimum guaranteed commitments of \$11.9 billion as of March 31, 2023, of which the majority is paid over seven years beginning in the first quarter of 2023.

### **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 March 31, 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 include speculative, substantial or indeterminate monetary amounts. 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, which remains pending. 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 on October 20, 2020 alleging that Google violated U.S. antitrust laws relating to Search and Search advertising. 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 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 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 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, most recently opening a formal review in May 2022 of Google's compliance with the new app store billing regulations.

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 April 2022, the Board of Directors of Alphabet authorized the company to repurchase up to \$70.0 billion of its Class A and Class C shares. As of March 31, 2023, \$13.1 billion remains available for Class A and Class C share repurchases. 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.

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

	Three Months Ended March 31, 2023	
	Shares	Amount
Class A share repurchases	21	\$ 2,011
Class C share repurchases	136	13,113
Total share repurchases <sup>(1)</sup>	157	\$ 15,124

<sup>(1)</sup> Shares repurchased include unsettled repurchases as of March 31, 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 March 31,					
	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	\$ 7,481	\$ 1,109	\$ 7,846	\$ 7,006	\$ 1,040	\$ 7,005
Denominator						
Number of shares used in per share computation	6,009	891	6,303	5,949	883	5,949
Basic net income per share	<u>\$ 1.24</u>	<u>\$ 1.24</u>	<u>\$ 1.24</u>	<u>\$ 1.18</u>	<u>\$ 1.18</u>	<u>\$ 1.18</u>
<b>Diluted net income per share:</b>						
Numerator						
Allocation of undistributed earnings for basic computation	\$ 7,481	\$ 1,109	\$ 7,846	\$ 7,006	\$ 1,040	\$ 7,005
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares	1,109	0	0	1,040	0	0
Reallocation of undistributed earnings	(95)	(12)	95	(27)	(4)	27
Allocation of undistributed earnings	<u>\$ 8,495</u>	<u>\$ 1,097</u>	<u>\$ 7,941</u>	<u>\$ 8,019</u>	<u>\$ 1,036</u>	<u>\$ 7,032</u>
Denominator						
Number of shares used in basic computation	6,009	891	6,303	5,949	883	5,949
Weighted-average effect of dilutive securities						
Add:						
Conversion of Class B to Class A shares outstanding	891	0	0	883	0	0
Restricted stock units and other contingently issuable shares	0	0	148	0	0	42

Number of shares used in per share computation	<u>6,900</u>	<u>891</u>	<u>6,451</u>	<u>6,832</u>	<u>883</u>	<u>5,991</u>
Diluted net income per share	<u>\$ 1.23</u>	<u>\$ 1.23</u>	<u>\$ 1.23</u>	<u>\$ 1.17</u>	<u>\$ 1.17</u>	<u>\$ 1.17</u>

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 March 31, 2022 and 2023, total stock-based compensation (SBC) expense was \$4.5 billion and \$5.3 billion, including amounts associated with awards we expect to settle in Alphabet stock of \$4.4 billion and \$5.1 billion, respectively. For the three months ended March 31, 2023 total SBC expense includes \$412 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 three months ended March 31, 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	324	\$ 107.98
Granted	234	\$ 94.51
Vested	(48)	\$ 100.25
Forfeited/canceled	(10)	\$ 110.60
Unvested as of March 31, 2023	<b>500</b>	<b>\$ 102.36</b>

As of March 31, 2023, there was \$48.6 billion of unrecognized compensation cost related to unvested RSUs. This amount is expected to be recognized over a weighted-average period of 2.9 years.

### **Note 13. Income Taxes**

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

	<b>Three Months Ended March 31,</b>	
	<b>2022</b>	<b>2023</b>
Income before provision for income taxes	\$ 18,934	\$ 18,205
Provision for income taxes	\$ 2,498	\$ 3,154
Effective tax rate	13.2 %	17.3 %

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 \$7.5 billion as of December 31, 2022 and March 31, 2023, respectively, of which \$5.3 billion and \$5.7 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.

After the segment reporting changes discussed above, unallocated corporate costs primarily include AI-focused shared R&D activities; corporate initiatives such as our philanthropic activities; and corporate shared costs such as finance, certain human resource costs, and legal, including certain fines and settlements. In the first quarter of 2023, unallocated corporate costs also include charges associated with reductions in our workforce and office space. Additionally, hedging gains (losses) related to revenue are included in unallocated corporate costs.

Prior periods have been recast to conform to the current presentation.

Our operating segments are not evaluated using asset information.

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

	Three Months Ended March 31,	
	2022	2023
<b>Revenues:</b>		
Google Services	\$ 61,472	\$ 61,961
Google Cloud	5,821	7,454
Other Bets	440	288
Hedging gains (losses)	278	84
<b>Total revenues</b>	<b>\$ 68,011</b>	<b>\$ 69,787</b>
 <b>Operating income (loss):</b>		
Google Services	\$ 21,973	\$ 21,737
Google Cloud	(706)	191
Other Bets	(835)	(1,225)
Corporate costs, unallocated	(338)	(3,288)
<b>Total income from operations</b>	<b>\$ 20,094</b>	<b>\$ 17,415</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):

	<b>As of December 31, 2022</b>	<b>As of March 31, 2023</b>
<b>Long-lived assets:</b>		
United States	\$ 93,565	\$ 96,519
International	33,484	35,488
Total long-lived assets	<b>\$ 127,049</b>	<b>\$ 132,007</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 March 31,			
	2022	2023	\$ Change	% Change
Consolidated revenues	\$ 68,011	\$ 69,787	\$ 1,776	3 %
Change in consolidated constant currency revenues <sup>(1)</sup>				6 %
Cost of revenues	\$ 29,599	\$ 30,612	\$ 1,013	3 %
Operating expenses	\$ 18,318	\$ 21,760	\$ 3,442	19 %
Operating income	\$ 20,094	\$ 17,415	\$ (2,679)	(13)%
Operating margin	30 %	25 %		(5)%
Other income (expense), net	\$ (1,160)	\$ 790	\$ 1,950	NM
Net Income	\$ 16,436	\$ 15,051	\$ (1,385)	(8)%
Diluted EPS	\$ 1.23	\$ 1.17	\$ (0.06)	(5)%

NM = Not Meaningful

- <sup>(1)</sup> See "Use of Non-GAAP Constant Currency Measures" below for details relating to our use of constant currency information.
- Revenues were \$69.8 billion, an increase of 3% year over year, primarily driven by an increase in Google Cloud revenues of \$1.6 billion, or 28%.

- Total constant currency revenues, which exclude the effect of hedging, increased 6% year over year.
- Cost of revenues was \$30.6 billion, an increase of 3% year over year, affected by compensation costs related to employee severance charges associated with the reduction in our workforce, charges related to our office space optimization efforts, and a reduction in depreciation expense due to the change in estimated useful life of our servers and certain network equipment.
- Operating expenses were \$21.8 billion, an increase of 19% year over year, affected by compensation costs related to employee severance charges associated with the reduction in our workforce as well as the effect of a shift in timing of our annual employee stock-based compensation awards.

### ***Other Information***

- In January 2023, we announced a reduction of our workforce, and as a result in the first quarter of 2023 we recorded employee severance and related charges of \$2.0 billion, representing the majority of expected costs associated with this action. In addition, we are taking actions to optimize our global office space, and as a result we recorded charges related to office space reductions of \$564 million in the first quarter of 2023. We may incur additional charges in the future as we further evaluate our real estate needs. For

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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 \$988 million for the first quarter of 2023, 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.
- Beginning in the first quarter of 2023, our segment reporting reflects two changes: (i) DeepMind, previously reported within Other Bets, is reported as part of Alphabet's unallocated corporate costs, and (ii) 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. For additional information, see Note 14 of the Notes to Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q.
- Beginning in 2023, the timing of our annual employee stock-based compensation awards shifted from January to March. While the shift in timing itself will not affect the

amount of stock-based compensation expense over the full fiscal year 2023, it results in relatively less expense recognized in the first quarter compared to the remaining quarters of the year.

- Repurchases of Class A and Class C shares were \$15.1 billion for the three months ended March 31, 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 \$23.5 billion for the three months ended March 31, 2023.
- Capital expenditures, which primarily reflected investments in technical infrastructure, were \$6.3 billion for the three months ended March 31, 2023.
- As of March 31, 2023, we had 190,711 employees, which includes almost all of the employees affected by the reduction of our workforce. We expect most of those affected will no longer be reflected in our headcount by the end of the second quarter of 2023, subject to local law and consultation requirements.

## Financial Results

### Revenues

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

	Three Months Ended March 31,	
	2022	2023
Google Search & other	\$ 39,618	\$ 40,359
YouTube ads	6,869	6,693
Google Network	8,174	7,496
Google advertising	54,661	54,548
Google other	6,811	7,413
Google Services total	61,472	61,961
Google Cloud	5,821	7,454
Other Bets	440	288
Hedging gains (losses)	278	84
Total revenues	\$ 68,011	\$ 69,787

## **Google Services**

### Google advertising revenues

#### *Google Search & other*

Google Search & other revenues increased \$741 million from the three months ended March 31, 2022 to the three months ended March 31, 2023. 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.

#### *YouTube ads*

YouTube ads revenues decreased \$176 million from the three months ended March 31, 2022 to the three months ended March 31, 2023 primarily driven by the adverse effect of changes in foreign currency exchange rates.

#### *Google Network*

Google Network revenues decreased \$678 million from the three months ended March 31, 2022 to the three months ended March 31, 2023 primarily driven by a decrease in AdMob and Google Ad Manager revenues as well as the adverse effect of changes in foreign currency exchange rates.

### Monetization Metrics

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

The following table presents changes in paid clicks and cost-per-click (expressed as a percentage) from the three months ended March 31, 2022 to the three months ended March 31, 2023:

Paid clicks change	8%
Cost-per-click change	(7)%

Paid clicks increased from the three months ended March 31, 2022 to the three months ended March 31, 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 three months ended March 31, 2022 to the three months ended March 31, 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 the adverse effect of changes in foreign currency exchange rates.

*Impressions and cost-per-impression*

The following table presents changes in impressions and cost-per-impression (expressed as a percentage) from the three months ended March 31, 2022 to the three months ended March 31, 2023:

Impressions change	(5)%
Cost-per-impression change	(5)%

Impressions decreased from the three months ended March 31, 2022 to the three months ended March 31, 2023 driven by Google Ad Manager and AdSense. The decrease in cost-per-impression from the three months ended March 31, 2022 to the three months ended March 31, 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.

*Google other revenues*

Google other revenues increased \$602 million from the three months ended March 31, 2022 to the three months ended March 31, 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.

## ***Google Cloud***

Google Cloud revenues increased \$1.6 billion from the three months ended March 31, 2022 to the three months ended March 31, 2023. 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 March 31,	
	2022	2023
United States	47 %	47 %
EMEA	30 %	30 %
APAC	17 %	17 %
Other Americas	6 %	6 %

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 U.S. Generally Accepted Accounting Principles (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 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

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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 exchange effect on international revenues and total revenues (in millions, except percentages):

**Three Months Ended March 31, 2023**

	% Change from Prior Period						
	Three Months Ended March 31,		Less FX Effect	Constant Currency Revenues	As Reported	Less Hedging Effect	Less FX Effect
	2022	2023					
United States	\$ 31,733	\$ 32,864	\$ 0	\$ 32,864	4 %		0 %
EMEA	20,317	21,078	(1,173)	22,251	4 %		(6)%
APAC	11,841	11,681	(834)	12,515	(1)%		(7)%
Other Americas	3,842	4,080	(167)	4,247	6 %		(5)%
Revenues, excluding hedging effect	67,733	69,703	(2,174)	71,877	3 %		(3)%
Hedging gains (losses)	278	84					
Total revenues <sup>(1)</sup>	<u>\$ 68,011</u>	<u>\$ 69,787</u>		<u>\$ 71,877</u>	3 %	0 %	(3)%
							6 %

<sup>(1)</sup> Total constant currency revenues of \$71.9 billion for the three months ended March 31, 2023 increased \$4.1 billion compared to \$67.7 billion in revenues, excluding hedging effect, for the three months ended March 31, 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 Euro and the British pound.

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):

	<b>Three Months Ended March 31,</b>	
	<b>2022</b>	<b>2023</b>
	<b>\$</b>	<b>\$</b>
TAC	\$ 11,990	\$ 11,721
Other cost of revenues	17,609	18,891
Total cost of revenues	<b>\$ 29,599</b>	<b>\$ 30,612</b>
Total cost of revenues as a percentage of revenues	44 %	44 %

Cost of revenues increased \$1.0 billion from the three months ended March 31, 2022 to the three months ended March 31, 2023 due to an increase in other cost of revenues of \$1.3 billion, partially offset by a decrease in TAC of \$269 million.

The decrease in TAC from the three months ended March 31, 2022 to the three months ended March 31, 2023 was largely due to a decrease in TAC paid to Google Network partners, primarily driven by a decrease in revenues subject to TAC. The TAC rate decreased from 21.9% to 21.5% from the three months ended March 31, 2022 to the three months ended March 31, 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 three months ended March 31, 2022 to the three months ended March 31, 2023.

The increase in other cost of revenues from the three months ended March 31, 2022 to the three months ended March 31, 2023 was primarily due to increases in data center and other operations costs which includes \$681 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 life of our servers and certain network equipment.

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

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2022</b>	<b>2023</b>
Research and development expenses	\$ 9,119	\$ 11,468
Research and development expenses as a percentage of revenues	13 %	16 %

R&D expenses increased \$2.3 billion from the three months ended March 31, 2022 to the three months ended March 31, 2023 primarily driven by an increase in compensation expenses of \$1.7 billion and an increase in facilities costs due to the \$247 million in charges related to our office space optimization efforts. The \$1.7 billion increase in compensation expenses was

largely the result of a 14% increase in average headcount, after adjusting for roles affected by the reduction in workforce for the quarter ended March 31, 2023, and \$835 million in employee severance charges associated with the reduction of our workforce, partially offset by the effect of the shift in timing of our annual employee stock-based compensation awards. Additionally, an increase in depreciation of \$126 million includes the effect 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 March 31,	
	2022	2023
Sales and marketing expenses	\$ 5,825	\$ 6,533
Sales and marketing expenses as a percentage of revenues	9 %	9 %

Sales and marketing expenses increased \$708 million from the three months ended March 31, 2022 to the three months ended March 31, 2023 primarily driven by an increase in compensation expenses of \$734 million, largely resulting from \$445 million in employee severance charges associated with the reduction in our workforce and a 7% increase in average headcount, after adjusting for roles affected by the reduction in workforce for the quarter ended March 31, 2023, partially offset by the effect of the shift in timing of our annual employee stock-based compensation awards.

## ***General and Administrative***

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

	Three Months Ended		
	March 31,		
	2022	2023	
General and administrative expenses	\$ 3,374	\$ 3,759	
General and administrative expenses as a percentage of revenues	5 %	5 %	

General and administrative expenses increased \$385 million from the three months ended March 31, 2022 to the three months ended March 31, 2023, primarily driven by an increase in compensation expenses of \$293 million, largely resulting from \$253 million in employee severance charges associated with the reduction in our workforce and an 6% increase in average headcount, after adjusting for roles affected by the reduction in workforce for the quarter ended March 31, 2023, partially offset by the effect of the shift in timing of our annual employee stock-based compensation awards.

## ***Segment Profitability***

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

	<b>Three Months Ended March 31,</b>	
	<b>2022</b>	<b>2023</b>
Operating income (loss):		
Google Services	\$ 21,973	\$ 21,737
Google Cloud	(706)	191
Other Bets	(835)	(1,225)
Corporate costs, unallocated <sup>(1)</sup>	(338)	(3,288)
Total income from operations	<u>\$ 20,094</u>	<u>\$ 17,415</u>

<sup>(1)</sup> Hedging gains (losses) related to revenue included in unallocated corporate costs were \$278 million and \$84 million for the three months ended March 31, 2022 and 2023, respectively. For the three months ended March 31, 2023, unallocated corporate costs include charges related to the reductions in our workforce and office space totaling \$2.5 billion.

## ***Google Services***

Google Services operating income decreased \$236 million from the three months ended March 31, 2022 to the three months ended March 31, 2023. The decrease in operating income was primarily driven by an increase in compensation expenses, partially offset by the effect of the shift in timing of our annual employee stock-based compensation awards, a reduction in costs driven by the change in the estimated useful life of our servers and certain network equipment, and growth in revenues.

### ***Google Cloud***

Google Cloud operating income of \$191 million for the three months ended March 31, 2023 compared to an operating loss of \$706 million for the three months ended March 31, 2022 represents an increase of \$897 million. The increase 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 life of our servers and certain network equipment and the effect of the shift in timing of our annual employee stock-based compensation awards.

### ***Other Bets***

Other Bets operating loss increased \$390 million from the three months ended March 31, 2022 to the three months ended March 31, 2023 due to a combination of factors none of which were individually significant.

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

The following table presents other income (expense), net (in millions):

	<b>Three Months Ended March 31,</b>	
	<b>2022</b>	<b>2023</b>
Other income (expense), net	\$ (1,160)	\$ 790

Other income (expense), net, increased \$2.0 billion from the three months ended March 31, 2022 to the three months ended March 31, 2023 primarily due to unrealized gains and losses on equity securities and changes in interest income. In the three months ended March 31, 2023, \$797 million of interest income was recognized and \$221 million and \$51 million of net unrealized gains were recognized on non-marketable and marketable equity securities, respectively. In the three months ended March 31, 2022, \$1.5 billion of net unrealized losses were recognized on marketable equity securities, partially offset by \$460 million of net unrealized gains on non-marketable equity securities and \$414 million of interest income.

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):

	<b>Three Months Ended March 31,</b>	
	<b>2022</b>	<b>2023</b>
Income before provision for income taxes	\$ 18,934	\$ 18,205
Provision for income taxes	\$ 2,498	\$ 3,154
Effective tax rate	13.2 %	17.3 %

The effective tax rate increased from the three months ended March 31, 2022 to the three months ended March 31, 2023, primarily driven by a decrease in the stock-based compensation-related tax benefit and proportionally less pre-tax earnings generated in countries that have lower statutory tax rates.

## **Financial Condition**

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

As of March 31, 2023, we had \$115.1 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):

	<b>Three Months Ended March 31,</b>	
	<b>2022</b>	<b>2023</b>
Net cash provided by operating activities	\$ 25,106	\$ 23,509
Net cash used in investing activities	\$ (9,051)	\$ (2,946)
Net cash used in financing activities	\$ (16,214)	\$ (16,568)

### ***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 decreased from the three months ended March 31, 2022 to the three months ended March 31, 2023 due to increased cash payments for costs and expenses, partially offset by an increase in cash received from revenues.

### ***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 decreased from the three months ended March 31, 2022 to the three months ended March 31, 2023 primarily due to a decrease in purchases of property and equipment and a decrease in net purchases of and maturities and sales of marketable securities.

### ***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 three months ended March 31, 2022 to the three months ended March 31, 2023 primarily due to an increase in repurchases of stock partially offset by a decrease in net payments related to stock-based award activities.

### ***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 three months ended March 31, 2022 and 2023, we spent \$9.8 billion and \$6.3 billion on capital expenditures, respectively. 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 three months ended March 31, 2022 and 2023, our depreciation and impairment expenses on property and equipment were \$3.6 billion and \$3.1 billion, respectively.

## Leases

For the three months ended March 31, 2022 and 2023, we recognized total operating lease assets of \$915 million and \$1.1 billion, respectively. As of March 31, 2023, the amount of total future lease payments under operating leases, which had a weighted average remaining lease term of 8.4 years, was \$18.0 billion. As of March 31, 2023, we have entered into leases that have not yet commenced with future lease payments of \$3.0 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 March 31, 2023 our actions to optimize our office space did not affect our operating lease obligations.

For the three months ended March 31, 2022 and 2023, our operating lease expenses (including variable lease costs) were \$880 million and \$1.1 billion, respectively. Finance lease costs were not material for the three months ended March 31, 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 March 31, 2023, we had no commercial paper outstanding.

As of March 31, 2023, we had \$10.0 billion of revolving credit facilities, \$4.0 billion expiring in April 2023 and \$6.0 billion expiring in April 2026. In April 2023, we entered into a new \$4.0 billion revolving credit facility expiring in April 2024 and we also terminated the existing \$6.0 billion revolving credit facility expiring in April 2026 and entered into a new \$6.0 billion revolving credit facility 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 March 31, 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***

In April 2022, the Board of Directors of Alphabet authorized the company to repurchase up to \$70.0 billion of its Class A and Class C shares. As of March 31, 2023, \$13.1 billion remains available for Class A and Class C share repurchases. During the three months ended March 31, 2023, we repurchased and subsequently retired 157 million shares for \$15.1 billion. Of the

aggregate amount repurchased and subsequently retired, 21 million shares were Class A stock for \$2.0 billion and 136 million shares were Class C stock for \$13.1 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. 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 March 31, 2023, we had short-term and long-term income taxes payable of \$1.6 billion and \$4.2 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 taxes payable of \$5.5 billion primarily related to uncertain tax positions as of March 31, 2023. Additionally, we are currently evaluating the timing of our 2023 federal tax payments due to payment deferral relief made available by the Internal Revenue Service to taxpayers headquartered in designated counties affected by flooding in California.

### ***Other***

We expect the substantial majority of the \$1.2 billion liability related to our January 2023 workforce reduction to be settled in fiscal year 2023, subject to local law and consultation requirements. See Note 7 of the Notes to Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q.

### **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 via a link through 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 "Other." 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 March 31, 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 March 31, 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 March 31, 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)
January 1 - 31	10,755	44,981	\$ 93.98	\$ 94.17	55,736	\$ 22,877
February 1 - 28	3,820	41,996	\$ 96.98	\$ 95.84	45,816	\$ 18,519
March 1 - 31	6,290	49,352	\$ 100.21	\$ 98.30	55,642	\$ 13,077
Total	<u>20,865</u>	<u>136,329</u>			<u>157,194</u>	

- <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 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		

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Linkbase Document

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

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\*

Filed herewith.

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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.

April 25, 2023

### ALPHABET INC.

By: /s/ RUTH M. PORAT

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Ruth M. Porat

Senior Vice President and Chief Financial Officer

April 25, 2023

### ALPHABET INC.

By: /s/ AMIE THUENER O'TOOLE

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Amie Thuener O'Toole

Vice President and Principal Accounting Officer

