Google Inc.
Form 10-Q
October 23, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

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: 001-36380

Google Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	77-0493581 (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)

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 ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

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

Large accelerated filer ý Accelerated filer ¨
Non-accelerated filer (Do not check if a smaller reporting company) ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

At October 16, 2014, there were 284,816,184 shares of Google's Class A common stock outstanding, 54,210,195 shares of Google's Class B common stock outstanding and 339,339,275 Class C capital stock outstanding.

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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 statements 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;
- our plans to continue to invest in new businesses, products and technologies, systems, facilities, and infrastructure, to continue to hire aggressively and provide competitive compensation programs, as well as to continue to invest in acquisitions;
- seasonal fluctuations in internet usage and advertiser expenditures, traditional retail seasonality and macroeconomic conditions, which are likely to cause fluctuations in our quarterly results;
- the potential for declines in our revenue growth rate;
- our expectation that growth in advertising revenues from our websites will continue to exceed that from our Google Network Members' websites, which will have a positive impact on our operating margins;
- our expectation that we will continue to pay most of the fees we receive from advertisers on our Google Network Members' websites to our Google Network Members;
- our expectation that we will continue to take steps to improve the relevance of the ads we deliver and to reduce the number of accidental clicks;
- fluctuations in aggregate paid clicks and average cost-per-click;
- our belief that our foreign exchange risk management program will not fully offset our net exposure to fluctuations in foreign currency exchange rates;
- the expected increase of costs related to hedging activities under our foreign exchange risk management program;
- our expectation that our cost of revenues, research and development expenses, sales and marketing expenses, and general and administrative expenses will increase in dollars and may increase as a percentage of revenues;
- our potential exposure in connection with pending investigations, proceedings, and other contingencies;
- our expectation that our traffic acquisition costs will fluctuate in the future;
- our continued investments in international markets;
- estimates of our future compensation expenses;
- fluctuations in our effective tax rate;
- the sufficiency of our sources of funding;
- our payment terms to certain advertisers, which may increase our working capital requirements;
- fluctuations in our capital expenditures;
- our expectations regarding the trading price of our Class A common stock and Class C capital stock; and
- our expectations about the disposition of the Motorola Mobile business;

as well as other statements regarding our future operations, financial condition and prospects, and business strategies. Forward-looking statements may appear throughout this report, including without limitation, the following sections: Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part II, Item 1A, "Risk Factors." Forward-looking statements generally can be identified by words such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," "projects," "will be," "will continue," "will likely result," and similar ex
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 under the caption "Risk Factors" in Part II, Item 1A of this report and those discussed in other documents we file with the Securities and Exchange Commission (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, “Google,” “we,” “our,” and similar terms include Google Inc. and its subsidiaries, unless the context indicates otherwise.

“Google” and other trademarks of ours appearing in this report are our property. This report contains additional trade names and trademarks of other companies. 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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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
Google Inc.
CONSOLIDATED BALANCE SHEETS
(In millions, except share and par value amounts which are reflected in thousands and par value per share amounts)

	As of December 31, 2013	As of September 30, 2014 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	$18,898	$15,605
Marketable securities	39,819	46,552
Total cash, cash equivalents, and marketable securities (including securities loaned of $5,059 and $4,219)	58,717	62,157
Accounts receivable, net of allowance of $631 and $230	8,882	8,237
Inventories	426	279
Receivable under reverse repurchase agreements	100	825
Deferred income taxes, net	1,526	1,372
Income taxes receivable, net	408	957
Prepaid revenue share, expenses and other assets	2,827	2,700
Assets held for sale	0	3,588
Total current assets	72,886	80,115
Prepaid revenue share, expenses and other assets, non-current	1,976	2,010
Non-marketable equity investments	1,976	2,470
Property and equipment, net	16,524	20,981
Intangible assets, net	6,066	4,744
Goodwill	11,492	15,461
Total assets	$110,920	$125,781
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$2,453	$1,368
Short-term debt	3,009	2,009
Accrued compensation and benefits	2,502	2,428
Accrued expenses and other current liabilities	3,755	3,933
Accrued revenue share	1,729	1,761
Securities lending payable	1,374	3,402
Deferred revenue	1,062	820
Income taxes payable, net	24	0
Liabilities held for sale	0	2,199
Total current liabilities	15,908	17,920
Long-term debt	2,236	3,230
Deferred revenue, non-current	139	154
Income taxes payable, non-current	2,638	3,117
Deferred income taxes, net, non-current	1,947	1,554
Other long-term liabilities	743	991

Stockholders' equity:		
Convertible preferred stock, $0.001 par value per share, 100,000 shares authorized; no shares issued and outstanding	0	0
Class A and Class B common stock, and Class C capital stock and additional paid-in capital, $0.001 par value per share: 15,000,000 shares authorized (Class A 9,000,000, Class B 3,000,000, Class C 3,000,000); 671,664 (Class A 279,325, Class B 56,507, Class C 335,832) and par value of $672 (Class A $279, Class B $57, Class C $336) and 678,277 (Class A 284,674, Class B 54,321, Class C 339,282) and par value of $678 (Class A $285, Class B $54, Class C $339) shares issued and outstanding	25,922	27,948
Accumulated other comprehensive income (loss)	125	(82)
Retained earnings	61,262	70,949
Total stockholders' equity	87,309	98,815
Total liabilities and stockholders' equity	$110,920	$125,781

See accompanying notes.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2014	2013	2014
	(unaudited)			
Revenues	$13,754	$16,523	$39,812	$47,898
Costs and expenses:				
Cost of revenues [1]	5,409	6,695	15,740	18,770
Research and development [1]	1,821	2,655	5,204	7,019
Sales and marketing [1]	1,628	2,084	4,646	5,754
General and administrative [1]	1,135	1,365	3,248	4,258
Total costs and expenses	9,993	12,799	28,838	35,801
Income from operations	3,761	3,724	10,974	12,097
Interest and other income, net	14	133	384	635
Income from continuing operations before income taxes	3,775	3,857	11,358	12,732
Provision for income taxes	612	859	1,893	2,594
Net income from continuing operations	3,163	2,998	9,465	10,138
Net income (loss) from discontinued operations [1]	(193)	(185)	79	(451)
Net income	$2,970	$2,813	$9,544	$9,687
Net income (loss) per share -- basic:				
Continuing operations	$4.74	$4.42	$14.25	$15.02
Discontinued operations	(0.29)	(0.27)	0.12	(0.67)
Net income per share - basic	$4.45	$4.15	$14.37	$14.35
Net income (loss) per share -- diluted:				
Continuing operations	$4.66	$4.36	$14.00	$14.77
Discontinued operations	(0.28)	(0.27)	0.12	(0.66)
Net income per share - diluted	$4.38	$4.09	$14.12	$14.11
Shares used in per share calculation - basic	667,232	677,097	664,366	674,933
Shares used in per share calculation - diluted	678,470	688,215	676,156	686,597

[1] Includes stock-based compensation expense as follows:

Cost of revenues	$133	$169	$342	$364
Research and development	436	666	1,175	1,569
Sales and marketing	155	197	398	502
General and administrative	132	223	339	539
Discontinued operations	30	35	187	118
Total stock-based compensation expense	$886	$1,290	$2,441	$3,092

See accompanying notes.

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Google Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
	(unaudited)			
Net income	$2,970	$2,813	$9,544	$9,687
Other comprehensive income (loss):				
Change in foreign currency translation adjustment	261	(677)	57	(623)
Available-for-sale investments:				
Change in net unrealized gains (losses)	257	(195)	(402)	250
Less: reclassification adjustment for net (gains) losses included in net income	21	(15)	(133)	(122)
Net change (net of tax effect of $31, $66, $208 and $38)	278	(210)	(535)	128
Cash flow hedges:				
Change in net unrealized gains (losses)	(28)	310	97	304
Less: reclassification adjustment for net gains included in net income	(14)	(7)	(58)	(16)
Net change (net of tax effect of $24, $122, $23 and $113)	(42)	303	39	288
Other comprehensive income (loss)	497	(584)	(439)	(207)
Comprehensive income	$3,467	$2,229	$9,105	$9,480

See accompanying notes.

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

	Nine Months Ended September 30,	
	2013	2014
	(unaudited)	
Operating activities		
Net income	$9,544	$9,687
Adjustments:		
Depreciation expense and loss on disposal of property and equipment	2,024	2,513
Amortization and impairment of intangibles and other assets	879	1,199
Stock-based compensation expense	2,441	3,092
Excess tax benefits from stock-based award activities	(302)	(467)
Deferred income taxes	125	(498)
Gain on divestiture of businesses	(705)	0
Gain on equity interest	0	(126)
Gain on sale of non-marketable equity investments	0	(139)
Other	44	45
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(454)	(490)
Income taxes, net	(79)	351
Inventories	(46)	46
Prepaid revenue share, expenses and other assets	(149)	460
Accounts payable	285	(113)
Accrued expenses and other liabilities	(270)	416
Accrued revenue share	8	36
Deferred revenue	76	0
Net cash provided by operating activities	13,421	16,012
Investing activities		
Purchases of property and equipment	(5,103)	(7,408)
Purchases of marketable securities	(31,746)	(43,192)
Maturities and sales of marketable securities	23,241	36,650
Investments in non-marketable equity investments	(471)	(536)
Cash collateral related to securities lending	220	2,029
Investments in reverse repurchase agreements	600	(725)
Proceeds from divestiture of businesses	2,525	0
Acquisitions, net of cash acquired, and purchases of intangibles and other assets	(1,328)	(4,632)
Net cash used in investing activities	(12,062)	(17,814)
Financing activities		
Net payments related to stock-based award activities	(637)	(1,548)
Excess tax benefits from stock-based award activities	302	467
Proceeds from issuance of debt, net of costs	8,350	9,167
Repayments of debt	(8,904)	(9,181)
Net cash used in financing activities	(889)	(1,095)
Effect of exchange rate changes on cash and cash equivalents	(6)	(236)
Net increase (decrease) in cash and cash equivalents	464	(3,133)
Cash and cash equivalents at beginning of period	14,778	18,898
Reclassification to assets held for sale	0	(160)

Cash and cash equivalents at end of period	$15,242	$15,605
Supplemental disclosures of cash flow information		
Cash paid for taxes	$1,304	$2,382
Cash paid for interest	$36	$56
Non-cash investing and financing activities:		
Receipt of Arris shares in connection with divestiture of Motorola Home	$175	$0
Property under capital lease	$258	$0

See accompanying notes.

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Google Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Google Inc. and Summary of Significant Accounting Policies

We were incorporated in California in September 1998 and re-incorporated in the State of Delaware in August 2003. We generate revenues primarily by delivering relevant, cost-effective online advertising.

On January 29, 2014, we entered into an agreement with Lenovo Group Limited (Lenovo) providing for the disposition of the Motorola Mobile business. As such, the financial results of Motorola Mobile are presented as "Net income (loss) from discontinued operations" on the Consolidated Statements of Income for the three and nine months ended September 30, 2013 and 2014; and assets and liabilities of Motorola Mobile to be disposed of are presented as "Assets held for sale" and "Liabilities held for sale" on the Consolidated Balance Sheet as of September 30, 2014, respectively.

On April 2, 2014, we completed a two-for-one stock split effected in the form of a stock dividend (the Stock Split). All references made to share or per share amounts in the accompanying consolidated financial statements and applicable disclosures have been retroactively adjusted to reflect the Stock Split. See Notes 11 and 12 for additional information about the Stock Split.

Basis of Consolidation

The consolidated financial statements include the accounts of Google Inc. and our subsidiaries. All intercompany balances and transactions have been eliminated.

Unaudited Interim Financial Information

The accompanying Consolidated Balance Sheet as of September 30, 2014, the Consolidated Statements of Income for the three and nine months ended September 30, 2013 and 2014, the Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2013 and 2014, and the Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and 2014 are unaudited. These unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (GAAP). In our opinion, the unaudited interim consolidated financial statements include all adjustments of a normal recurring nature necessary for the fair presentation of our financial position as of September 30, 2014, our results of operations for the three and nine months ended September 30, 2013 and 2014, and our cash flows for the nine months ended September 30, 2013 and 2014. The results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the results to be expected for the year ending December 31, 2014. These unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, filed with the SEC on February 12, 2014.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires us to make 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. On an ongoing basis, we evaluate our estimates, including those related to the accounts receivable and sales allowances, fair values of financial instruments, intangible assets and goodwill, useful lives of intangible assets and property and equipment, fair values of stock-based awards, inventory valuations, income taxes, and contingent liabilities, among others. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

Recent Accounting Pronouncement

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-08 (ASU 2014-08) “Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU 2014-08 raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both

discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. It is effective for annual periods beginning on or after December 15, 2014. Early adoption is permitted but only for disposals that have not been reported in financial statements previously issued. We do not expect the impact of the adoption of ASU 2014-08 to be material to our consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09) "Revenue from Contracts with Customers." ASU 2014-09 supersedes the revenue recognition requirements in "Revenue Recognition (Topic 605)", and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. We are currently in the process of evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements.

In June 2014, the FASB issued Accounting Standards Update No. 2014-10 (ASU 2014-10) "Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation". ASU 2014-10 removes the definition of a development stage entity from the Master Glossary of the ASC thereby removing the financial reporting distinction between development stage entities and other reporting entities. The amendment eliminating the exception to the sufficiency-of-equity-at-risk criterion for development stage entities should be applied retrospectively for annual reporting periods beginning after December 15, 2015, and interim periods therein. Early application of these amendments is permitted. We are currently in the process of evaluating the impact of the adoption of ASU 2014-10 on our consolidated financial statements.

Prior Period Reclassifications

Reclassifications of prior period amounts related to discontinued operations as a result of the expected Motorola Mobile disposition, and share and per share amounts due to the Stock Split have been made to conform to the current period presentation.

Note 2. Financial Instruments

Fair Value Measurements

We measure our cash equivalents, marketable securities, and foreign currency and interest rate derivative contracts at fair value on a recurring basis. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. Assets and liabilities recorded at fair value are measured and classified in accordance with a three-tier fair value hierarchy based on the observability of the inputs available in the market used to measure fair value:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Inputs that are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant inputs are observable in the market or can be derived from observable market data. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, foreign exchange rates, and credit ratings.

Level 3 - Unobservable inputs that are supported by little or no market activities.

The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

We classify our cash equivalents and marketable securities within Level 1 or Level 2 because we use quoted market prices or alternative pricing sources and models utilizing market observable inputs to determine their fair value. We classify our foreign currency and interest rate derivative contracts primarily within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments.

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Cash, Cash Equivalents and Marketable Securities

The following tables summarize our cash, cash equivalents and marketable securities by significant investment categories as of December 31, 2013 and September 30, 2014 (in millions):

	As of December 31, 2013					
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents	Marketable Securities
Cash	$9,909	$0	$0	$9,909	$9,909	$0
Level 1:						
Money market and other funds	4,428	0	0	4,428	4,428	0
U.S. government notes	18,276	23	(37)	18,262	2,501	15,761
Marketable equity securities	197	167	0	364	0	364
	22,901	190	(37)	23,054	6,929	16,125
Level 2:						
Time deposits[1]	1,207	0	0	1,207	790	417
Money market and other funds[2]	1,270	0	0	1,270	1,270	0
U.S. government agencies	4,575	3	(3)	4,575	0	4,575
Foreign government bonds	1,502	5	(26)	1,481	0	1,481
Municipal securities	2,904	9	(36)	2,877	0	2,877
Corporate debt securities	7,300	162	(67)	7,395	0	7,395
Agency residential mortgage-backed securities	5,969	27	(187)	5,809	0	5,809
Asset-backed securities	1,142	0	(2)	1,140	0	1,140
	25,869	206	(321)	25,754	2,060	23,694
Total	$58,679	$396	$(358)	$58,717	$18,898	$39,819

	As of September 30, 2014					
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents	Marketable Securities
	(unaudited)					
Cash	$9,311	$0	$0	$9,311	$9,311	$0
Level 1:						
Money market and other funds	2,992	0	0	2,992	2,992	0
U.S. government notes	14,226	28	(8)	14,246	2	14,244
Marketable equity securities	186	154	0	340	0	340
	17,404	182	(8)	17,578	2,994	14,584
Level 2:						
Time deposits[1]	2,199	0	0	2,199	1,191	1,008
Money market and other funds[2]	2,099	0	0	2,099	2,099	0
Fixed-income bond funds[3]	385	0	(19)	366	0	366
U.S. government agencies	4,246	3	(4)	4,245	0	4,245
Foreign government bonds	1,706	12	(11)	1,707	0	1,707
Municipal securities	2,893	31	(4)	2,920	10	2,910
Corporate debt securities	10,561	119	(74)	10,606	0	10,606
Agency residential mortgage-backed securities	8,008	63	(88)	7,983	0	7,983
Asset-backed securities	3,145	1	(3)	3,143	0	3,143
	35,242	229	(203)	35,268	3,300	31,968
Total	$61,957	$411	$(211)	$62,157	$15,605	$46,552

(1) The majority of our time deposits are foreign deposits.

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(2) The balances at December 31, 2013 and September 30, 2014 were related to cash collateral received in connection with our securities lending program, which was invested in reverse repurchase agreements maturing within three months. See section titled "Securities Lending Program" below for further discussion of this program.

(3) Fixed-income bond funds consist of mutual funds that primarily invest in corporate and government bonds.

Cash, cash equivalents and marketable securities to be disposed of as a result of the Motorola Mobile disposition were included in "Assets held for sale" on the Consolidated Balance Sheet as of September 30, 2014, and accordingly, are not included in this table.

During the second quarter of 2013, we received approximately $175 million in Arris Group, Inc. (Arris) common stock (10.6 million shares) in connection with the sale of the Motorola Home business (see details in Note 8). These shares are accounted for as available-for-sale marketable equity securities.

We determine realized gains or losses on the sale of marketable securities on a specific identification method. We recognized gross realized gains of $35 million and $252 million for the three and nine months ended September 30, 2013 and $33 million and $189 million for the three and nine months ended September 30, 2014. We recognized gross realized losses of $61 million and $117 million for the three and nine months ended September 30, 2013 and $15 million and $49 million for the three and nine months ended September 30, 2014. We reflect these gains and losses as a component of "Interest and other income, net" in the accompanying Consolidated Statements of Income.

The following table summarizes the estimated fair value of our investments in marketable debt securities, accounted for as available-for-sale securities and classified by the contractual maturity date of the securities (in millions):

	As of September 30, 2014 (unaudited)
Due in 1 year	$8,854
Due in 1 year through 5 years	22,010
Due in 5 years through 10 years	6,790
Due after 10 years	8,192
Total	$45,846

The following tables present gross unrealized losses and fair values for those investments that were in an unrealized loss position as of December 31, 2013 and September 30, 2014, 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, 2013					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government notes	$4,404	$(37)	$0	$0	$4,404	$(37)
U.S. government agencies	496	(3)	0	0	496	(3)
Foreign government bonds	899	(23)	83	(3)	982	(26)
Municipal securities	1,210	(32)	99	(4)	1,309	(36)
Corporate debt securities	2,583	(62)	69	(5)	2,652	(67)
Agency residential mortgage-backed securities	4,065	(167)	468	(20)	4,533	(187)
Asset-backed securities	643	(2)	0	0	643	(2)
Total	$14,300	$(326)	$719	$(32)	$15,019	$(358)

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	As of September 30, 2014					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
			(unaudited)			
U.S. government notes	$3,623	$(4)	$296	$(4)	$3,919	$(8)
U.S. government agencies	1,457	(4)	0	0	1,457	(4)
Foreign government bonds	480	(6)	208	(5)	688	(11)
Municipal securities	268	(1)	198	(3)	466	(4)
Corporate debt securities	4,901	(62)	294	(12)	5,195	(74)
Agency residential mortgage-backed securities	1,763	(5)	2,518	(83)	4,281	(88)
Asset-backed securities	1,454	(2)	189	(1)	1,643	(3)
Fixed-income bond funds	366	(19)	0	0	366	(19)
Total	$14,312	$(103)	$3,703	$(108)	$18,015	$(211)

We periodically review our marketable debt and equity securities for other-than-temporary impairment. We consider factors such as the duration, severity and the reason for the decline in value, the potential recovery period and our intent to sell. For marketable debt securities, we also consider whether (i) it is more likely than not that we will be required to sell the debt securities before recovery of their amortized cost basis, and (ii) the amortized cost basis cannot be recovered as a result of credit losses. During the three and nine months ended September 30, 2013 and 2014, we did not recognize any other-than-temporary impairment loss.

Securities Lending Program

From time to time, we enter into securities lending agreements with financial institutions to enhance investment income. We loan selected securities which are collateralized in the form of cash or securities. Cash collateral is invested in reverse repurchase agreements which are collateralized in the form of securities.

We classify loaned securities as cash equivalents or marketable securities and record the cash collateral as an asset with a corresponding liability in the accompanying Consolidated Balance Sheets. We classify reverse repurchase agreements maturing within three months as cash equivalents and those longer than three months as receivable under reverse repurchase agreements in the accompanying Consolidated Balance Sheets. For security collateral received, we do not record an asset or liability except in the event of counterparty default.

Derivative Financial Instruments

We recognize derivative instruments as either assets or liabilities in the accompanying Consolidated Balance Sheets at fair value. We record changes in the fair value (i.e. gains or losses) of the derivatives in the accompanying Consolidated Statements of Income as "Interest and other income, net", as part of revenues, or as a component of accumulated other comprehensive income (AOCI) in the accompanying Consolidated Balance Sheets, as discussed below.

We enter into foreign currency contracts with financial institutions to reduce the risk that our cash flows and earnings will be adversely affected by foreign currency exchange rate fluctuations. We use certain interest rate derivative contracts to hedge interest rate exposures on our fixed income securities and our anticipated debt issuance. Our program is not used for trading or speculative purposes.

We enter into master netting arrangements, which reduce credit risk by permitting net settlement of transactions with the same counterparty. To further reduce credit risk, we enter into collateral security arrangements under which the counterparty is required to provide collateral when the net fair value of certain financial instruments fluctuates from contractually established thresholds. We can take possession of the collateral in the event of counterparty default. As of December 31, 2013 and September 30, 2014, we received cash collateral related to the derivative instruments under our collateral security arrangements of $35 million and $199 million.

Cash Flow Hedges

We use options designated as cash flow hedges to hedge certain forecasted revenue transactions denominated in currencies other than the U.S. dollar. The notional principal of these contracts was approximately $10.0 billion and

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$13.6 billion as of December 31, 2013 and September 30, 2014. These foreign exchange contracts have maturities of 36 months or less.

In 2012, we entered into forward-starting interest rate swaps, with a total notional amount of $1.0 billion and terms calling for us to receive interest at a variable rate and to pay interest at a fixed rate, that effectively locked in an interest rate on our anticipated debt issuance of $1.0 billion in 2014. We issued $1.0 billion of unsecured senior notes in February 2014 (See details in Note 3). As a result, we terminated the forward-starting interest rate swaps upon the debt issuance. The gain associated with the termination is reported within operating activities in the Consolidated Statement of Cash Flows for the nine months ended September 30, 2014, consistent with the impact of the hedged item.

We reflect gains or losses on the effective portion of a cash flow hedge as a component of AOCI and subsequently reclassify cumulative gains and losses to revenues or interest expense when the hedged transactions are recorded. If the hedged transactions become probable of not occurring, the corresponding amounts in AOCI would be immediately reclassified to "Interest and other income, net". Further, we exclude the change in the time value of the options from our assessment of hedge effectiveness. We record the premium paid or time value of an option on the date of purchase as an asset. Thereafter, we recognize changes to this time value in "Interest and other income, net".

As of September 30, 2014, the effective portion of our cash flow hedges before tax effect was $495 million, of which $339 million is expected to be reclassified from AOCI into earnings within the next 12 months.

Fair Value Hedges

We use forward contracts designated as fair value hedges to hedge foreign currency risks for our investments denominated in currencies other than the U.S. dollar. We exclude changes in the time value for these forward contracts from the assessment of hedge effectiveness. The notional principal of these contracts was $1.2 billion and $1.4 billion as of December 31, 2013 and September 30, 2014.

Starting in the quarter ended September 30, 2014, we used interest rate swaps designated as fair value hedges to hedge interest rate risk for certain fixed rate securities. The notional principal of these contracts was $0 million and $30 million as of December 31, 2013 and September 30, 2014.

Gains and losses on these forward contracts and interest rate swaps are recognized in "Interest and other income, net" along with the offsetting losses and gains of the related hedged items.

Other Derivatives

Other derivatives not designated as hedging instruments consist of forward contracts that we use to hedge intercompany transactions and other monetary assets or liabilities denominated in currencies other than the local currency of a subsidiary. We recognize gains and losses on these contracts, as well as the related costs in "Interest and other income, net" along with the foreign currency gains and losses on monetary assets and liabilities. The notional principal of foreign exchange contracts outstanding was $9.4 billion and $6.1 billion at December 31, 2013 and September 30, 2014.

We also use exchange-traded interest rate futures contracts and “To Be Announced” (TBA) forward purchase commitments of mortgage-backed assets to hedge interest rate risks on certain fixed income securities. The TBA contracts meet the definition of derivative instruments in cases where physical delivery of the assets is not taken at the earliest available delivery date. Our interest rate futures and TBA contracts (together interest rate contracts) are not designated as hedging instruments. We recognize gains and losses on these contracts, as well as the related costs, in "Interest and other income, net". The gains and losses are generally economically offset by unrealized gains and losses in the underlying available-for-sale securities, which are recorded as a component of AOCI until the securities are sold or other-than-temporarily impaired, at which time the amounts are moved from AOCI into "Interest and other income, net". The total notional amounts of interest rate contracts outstanding were $13 million at December 31, 2013 and $125 million at September 30, 2014.

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

	Balance Sheet Location	As of December 31, 2013 Fair Value of Derivatives Designated as Hedging Instruments	Fair Value of Derivatives Not Designated as Hedging Instruments	Total Fair Value
Derivative Assets:				
Level 2:				
Foreign exchange contracts	Prepaid revenue share, expenses and other assets, current and non-current	$133	$12	$145
Interest rate contracts	Prepaid revenue share, expenses and other assets, current and non-current	87	0	87
Total		$220	$12	$232
Derivative Liabilities:				
Level 2:				
Foreign exchange contracts	Accrued expenses and other current liabilities	$0	$4	$4
		$0	$4	$4

	Balance Sheet Location	As of September 30, 2014 Fair Value of Derivatives Designated as Hedging Instruments (unaudited)	Fair Value of Derivatives Not Designated as Hedging Instruments	Total Fair Value
Derivative Assets:				
Level 2:				
Foreign exchange contracts	Prepaid revenue share, expenses and other assets, current and non-current and assets held for sale	$571	$2	$573
Total		$571	$2	$573
Derivative Liabilities:				
Level 2:				
Foreign exchange contracts	Accrued expenses, and other current liabilities and liabilities held for sale	$0	$3	$3
Total		$0	$3	$3

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The effect of derivative instruments in cash flow hedging relationships on income and other comprehensive income (OCI) is summarized below (in millions):

	Gains (Losses) Recognized in OCI on Derivatives Before Tax Effect (Effective Portion)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
Derivatives in Cash Flow Hedging Relationship	2013	2014	2013	2014
	(unaudited)			
Foreign exchange contracts	$(43)	$436	$87	$458
Interest rate contracts	(1)	0	67	(31)
Total	$(44)	$436	$154	$427

		Gains Reclassified from AOCI into Income (Effective Portion)			
		Three Months Ended September 30,		Nine Months Ended September 30,	
Derivatives in Cash Flow Hedging Relationship	Income Statement Location	2013	2014	2013	2014
		(unaudited)			
Foreign exchange contracts	Revenues	$22	$10	$92	$24
Interest rate contracts	Interest and other income,net	0	1	0	2
Total		$22	$11	$92	$26

		Gains (Losses) Recognized in Income on Derivatives (Amount Excluded from Effectiveness Testing and Ineffective Portion) [1]			
		Three Months Ended September 30,		Nine Months Ended September 30,	
Derivatives in Cash Flow Hedging Relationship	Income Statement Location	2013	2014	2013	2014
		(unaudited)			
Foreign exchange contracts	Interest and other income, net	$(135)	$(52)	$(224)	$(186)
Interest rate contracts	Interest and other income, net	0	0	0	4
Total		$(135)	$(52)	$(224)	$(182)

[1] Gains (losses) related to the ineffective portion of the hedges were not material in all periods presented.

The effect of derivative instruments in fair value hedging relationships on income is summarized below (in millions):

		Gains (Losses) Recognized in Income on Derivatives[2]			
		Three Months Ended September 30,		Nine Months Ended September 30,	
Derivatives in Fair Value Hedging Relationship	Income Statement Location	2013	2014	2013	2014
		(unaudited)			
Foreign exchange contracts	Interest and other income, net	$(49)	$73	$13	$52

Hedged item	Interest and other income, net	46	(75)	(19)	(58)
Total		$(3)	$(2)	$(6)	$(6)

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(2) Losses related to the amount excluded from effectiveness testing of the hedges were $3 million and $6 million for the three and nine months ended September 30, 2013 and $2 million and $6 million for the three and nine months ended September 30, 2014.

The effect of derivative instruments not designated as hedging instruments on income is summarized below (in millions):

	Gains (Losses) Recognized in Income on Derivatives				
		Three Months Ended September 30,		Nine Months Ended September 30,	
Derivatives Not Designated As Hedging Instruments	Income Statement Location	2013	2014	2013	2014
		(unaudited)			
Foreign exchange contracts	Interest and other income, net, and net income (loss) from discontinued operations	$(55)	$172	$102	$59
Interest rate contracts	Interest and other income, net	2	2	2	2
Total		$(53)	$174	$104	$61

Offsetting of Derivatives, Securities Lending and Reverse Repurchase Agreements

We present our derivatives, securities lending and reverse repurchase agreements at gross fair values in the Consolidated Balance Sheets. However, our master netting and other similar arrangements allow net settlements under certain conditions. As of December 31, 2013 and September 30, 2014, information related to these offsetting arrangements was as follows (in millions):

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Offsetting of Assets

As of December 31, 2013

Description	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets, but Have Legal Rights to Offset: Financial Instruments	Cash Collateral Received	Non-Cash Collateral Received	Net Assets Exposed
Derivatives	$232	$ 0	$ 232	$(2)[1]	$ (35)	$ (52)	$143
Reverse repurchase agreements	1,370	0	1,370 [2]	0	0	(1,370)	0
Total	$1,602	$ 0	$ 1,602	$(2)	$ (35)	$ (1,422)	$143

As of September 30, 2014

Description	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets, but Have Legal Rights to Offset: Financial Instruments	Cash Collateral Received	Non-Cash Collateral Received	Net Assets Exposed
	(unaudited)						
Derivatives	$573	$ 0	$ 573	$(1)[1]	$ (180)	$ (269)	$123
Reverse repurchase agreements	2,924	0	2,924 [2]	0	0	(2,924)	0
Total	$3,497	$ 0	$ 3,497	$(1)	$ (180)	$ (3,193)	$123

[1] The balances at December 31, 2013 and September 30, 2014 were related to derivative liabilities which are allowed to be net settled against derivative assets in accordance with our master netting agreements.

[2] The balances at December 31, 2013 and September 30, 2014 included $1,270 million and $2,099 million recorded in cash and cash equivalents, respectively, and $100 million and $825 million recorded in receivable under reverse repurchase agreements, respectively.

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Offsetting of Liabilities

	As of December 31, 2013						
				Gross Amounts Not Offset in the Consolidated Balance Sheets, but Have Legal Rights to Offset			
Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Presented in the Consolidated Balance Sheets	Financial Instruments	Cash Collateral Pledged	Non-Cash Collateral Pledged	Net Liabilities
Derivatives	$4	$ 0	$ 4	$(2)[3]	$ 0	$ 0	$2
Securities lending agreements	1,374	0	1,374	0	0	(1,357)	17
Total	$1,378	$ 0	$ 1,378	$(2)	$ 0	$ (1,357)	$19

	As of September 30, 2014						
				Gross Amounts Not Offset in the Consolidated Balance Sheets, but Have Legal Rights to Offset			
Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Presented in the Consolidated Balance Sheets	Financial Instruments	Cash Collateral Pledged	Non-Cash Collateral Pledged	Net Liabilities
	(unaudited)						
Derivatives	$3	$ 0	$ 3	$(1)[3]	$ 0	$ 0	$2
Securities lending agreements	3,402	0	3,402	0	0	(3,347)	55
Total	$3,405	$ 0	$ 3,405	$(1)	$ 0	$ (3,347)	$57

(3) The balances at December 31, 2013 and September 30, 2014 were related to derivative assets which are allowed to be net settled against derivative liabilities in accordance with our master netting agreements.

Note 3. Debt

Short-Term Debt

We have a debt financing program of up to $3.0 billion through the issuance of commercial paper. Net proceeds from this program are used for general corporate purposes. At December 31, 2013 and September 30, 2014, we had $2.0 billion of outstanding commercial paper recorded as short-term debt with weighted-average interest rates of 0.1%. In conjunction with this program, we have a $3.0 billion revolving credit facility expiring in July 2016. The interest rate for the credit facility is determined based on a formula using certain market rates. At December 31, 2013 and September 30, 2014, we were in compliance with the financial covenant in the credit facility, and no amounts were outstanding under the credit facility at December 31, 2013 and September 30, 2014. The estimated fair value of the commercial paper approximated its carrying value at December 31, 2013 and September 30, 2014.

Long-Term Debt

We issued $1.0 billion of unsecured senior notes (the "2014 Notes") in February 2014 and $3.0 billion of unsecured senior notes in three tranches (collectively, the "2011 Notes") in May 2011. On May 19, 2014, we repaid $1.0 billion on the first tranche of our 2011 Notes upon their maturity. Additionally, we entered into a capital lease obligation in August 2013. The details of these financing arrangements are described in the table below (in millions):

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	As of December 31, 2013	As of September 30, 2014 (unaudited)
Short-Term Portion of Long-Term Debt		
1.25% Notes due on May 19, 2014	$1,000	$0
Capital Lease Obligation	9	9
Total	$1,009	$9
Long-Term Debt		
2.125% Notes due on May 19, 2016	$1,000	$1,000
3.625% Notes due on May 19, 2021	1,000	1,000
3.375% Notes due on February 25, 2024	0	1,000
Unamortized discount for the Notes above	(10)	(8)
Subtotal	1,990	2,992
Capital Lease Obligation	246	238
Total	$2,236	$3,230

The effective interest yields of the Notes due in 2016, 2021, and 2024 were 2.241%, 3.734% and 3.377%, respectively. Interest on the 2011 and 2014 Notes is payable semi-annually. The 2011 and 2014 Notes rank equally with each other and with all of our other senior unsecured and unsubordinated indebtedness from time to time outstanding. We may redeem the 2011 and 2014 Notes at any time in whole or in part at specified redemption prices. We are not subject to any financial covenants under the 2011 Notes or the 2014 Notes. We used the net proceeds from the issuance of the 2011 Notes to repay a portion of our outstanding commercial paper and for general corporate purposes. We used the net proceeds from the issuance of the 2014 Notes for the repayment of the portion of the principal amount of our 2011 Notes which matured on May 19, 2014 and for general corporate purposes. The total estimated fair value of the 2011 and 2014 Notes was approximately $3.1 billion at both December 31, 2013 and September 30, 2014. The fair value of the outstanding 2011 and 2014 Notes 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.

In August 2013, we entered into a capital lease obligation on certain property expiring in 2028 with an option to purchase the property in 2016. The effective rate of the capital lease obligation approximates the market rate. The estimated fair value of the capital lease obligation approximated its carrying value at December 31, 2013 and September 30, 2014.

Note 4. Balance Sheet Components

Inventories

Inventories consisted of the following (in millions):

	As of December 31, 2013	As of September 30, 2014 (unaudited)
Raw materials and work in process	$115	$0
Finished goods	311	279
Inventories	$426	$279

Inventories to be disposed of as a result of the Motorola Mobile disposition were included in "Assets held for sale" on the Consolidated Balance Sheet as of September 30, 2014, and accordingly, are not included in this table.

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Property and Equipment

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

	As of December 31, 2013	As of September 30, 2014 (unaudited)
Information technology assets	$9,094	$10,177
Land and buildings	7,488	11,616
Construction in progress	5,602	5,743
Leasehold improvements	1,576	1,677
Furniture and fixtures	77	79
Total	23,837	29,292
Less: accumulated depreciation and amortization	7,313	8,311
Property and equipment, net	$16,524	$20,981

Property under capital lease with a cost basis of $258 million was included in land and buildings and construction in progress as of September 30, 2014. In October 2014, we completed a purchase of land and office buildings, for total cash consideration of $585 million. We are currently in the process of valuing the assets and evaluating the impact of the purchase on our consolidated financial statements.

Property and equipment to be disposed of as a result of the Motorola Mobile disposition were included in "Assets held for sale" on the Consolidated Balance Sheet as of September 30, 2014, and accordingly, are not included in this table.

Accumulated Other Comprehensive Income (Loss)

The components of AOCI, net of tax, were as follows (in millions, unaudited):

	Foreign Currency Translation Adjustments	Unrealized Gains on Available-for-Sale Investments	Unrealized Gains on Cash Flow Hedges	Total
Balance as of December 31, 2013	$16	$50	$59	$125
Other comprehensive income (loss) before reclassifications	(623)	250	304	(69)
Amounts reclassified from AOCI	0	(122)	(16)	(138)
Other comprehensive income (loss)	(623)	128	288	(207)
Balance as of September 30, 2014	$(607)	$178	$347	$(82)

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

		Gains (Losses) Reclassified from AOCI to the Consolidated Statement of Income			
		Three Months Ended September 30,		Nine Months Ended September 30,	
AOCI Components	Location	2013	2014	2013	2014
Unrealized gains on available-for-sale investments					
	Interest and other income, net	$(26)	$18	$135	$140
	Net Income (loss) from discontinued operations	0	0	43	0
	Benefit from (provision for) income taxes	5	(3)	(45)	(18)
	Net of tax	$(21)	$15	$133	$122
Unrealized gains on cash flow hedges					
Foreign exchange contracts	Revenue	$22	$10	$92	$24
Interest rate contracts	Interest and other income, net	0	1	0	2
	Provision for income taxes	(8)	(4)	(34)	(10)
	Net of tax	$14	$7	$58	$16
Total amount reclassified, net of tax		$(7)	$22	$191	$138

Note 5. Acquisitions

Nest

In February 2014, we completed the acquisition of Nest Labs, Inc. (Nest), a company whose mission is to reinvent devices in the home such as thermostats and smoke alarms. Prior to this transaction, we had an approximately 12% ownership interest in Nest. The acquisition is expected to enhance Google's suite of products and services and allow Nest to continue to innovate upon devices in the home, making them more useful, intuitive, and thoughtful, and to reach more users in more countries.

Of the total $2.5 billion purchase price and the fair value of our previously held equity interest of $152 million, $51 million was cash acquired, $430 million was attributed to intangible assets, $2.32 billion was attributed to goodwill, and $129 million was attributed to net liabilities assumed. The goodwill of $2.32 billion is primarily attributable to the synergies expected to arise after the acquisition. Goodwill is not expected to be deductible for tax purposes.

This transaction is considered a “step acquisition” under GAAP whereby our ownership interest in Nest held before the acquisition was remeasured to fair value at the date of the acquisition. Such fair value was estimated by using discounted cash flow valuation methodologies. Inputs used in the methodologies primarily included projected future cash flows, discounted at a rate commensurate with the risk involved. The gain of $103 million as a result of remeasurement is included in “Interest and other income, net” on our Consolidated Statement of Income for the nine months ended September 30, 2014.

Dropcam

In July 2014, Nest completed the acquisition of Dropcam, Inc. (Dropcam), a company that enables consumers and businesses to monitor their homes and offices via video, for approximately $517 million in cash. With Dropcam on board, Nest expects to continue to reinvent products that will help shape the future of the connected home. The fair value of assets acquired and liabilities assumed was based upon a preliminary valuation and our estimates and assumptions are subject to change within the measurement period. The primary areas of the purchase price that are not yet finalized are related to income taxes and residual goodwill. Of the total purchase price of $517 million, $11 million was cash acquired, $55 million was attributed to intangible assets, $470 million was attributed to goodwill, and $19 million was attributed to net liabilities assumed. The goodwill of $470 million is primarily attributable to the synergies expected to arise after the acquisition. Goodwill is not expected to be deductible for tax purposes.

Skybox

In August 2014, we completed the acquisition of Skybox Imaging, Inc. (Skybox), a satellite imaging company, for approximately $478 million in cash. We expect the acquisition to keep Google Maps accurate with up-to-date imagery and, over time, improve internet access and disaster relief. The fair value of assets acquired and liabilities assumed was based upon a preliminary valuation and our estimates and assumptions are subject to change within the measurement period. The primary areas of the purchase price that are not yet finalized are related to income taxes and residual goodwill. Of the total purchase price of $478 million, $6 million was cash acquired, $69 million was attributed to intangible assets, $401 million was attributed to goodwill, and $2 million was attributed to net assets acquired. The goodwill of $401 million is primarily attributable to the synergies expected to arise after the acquisition. Goodwill is not expected to be deductible for tax purposes.

Other acquisitions

During the nine months ended September 30, 2014, we completed other acquisitions and purchases of intangible assets for total cash consideration of approximately $1.1 billion. Of the total $1.1 billion purchase price and the fair value of our previously held equity interest of $33 million, $64 million was cash acquired, $281 million was attributed to intangible assets, $879 million was attributed to goodwill, and $77 million was attributed to net liabilities assumed. These acquisitions generally enhance the breadth and depth of our expertise in engineering and other functional areas, our technologies, and our product offerings. The amount of goodwill expected to be deductible for tax purposes is approximately $53 million.

Pro forma results of operations for these acquisitions have not been presented because they are not material to the consolidated results of operations, either individually or in aggregate.

For all acquisitions completed during the nine months ended September 30, 2014, patents and developed technology have a weighted-average useful life of 5.1 years, customer relationships have a weighted-average useful life of 4.6 years, and trade names and other have a weighted-average useful life of 7.0 years.

Note 6. Collaboration Agreement

On September 18, 2013, we announced the formation of Calico, a life science company with a mission to harness advanced technologies to increase our understanding of the biology that controls lifespan. Calico's results of operations and statement of financial position are included in our consolidated financial statements. As of September 30, 2014, Google has contributed $240 million to Calico in exchange for Calico convertible preferred units.

In September 2014, AbbVie Inc. (AbbVie) and Calico announced a research and development collaboration intended to help both companies discover, develop and bring to market new therapies for patients with age-related diseases, including for neurodegeneration and cancer. As of September 30, 2014, AbbVie and Calico have each committed up to $250 million to fund the collaboration pursuant to the agreement. Calico will use its scientific expertise to establish a world-class research and development facility, with a focus on drug discovery and early drug development; and AbbVie will provide scientific and clinical development support and its commercial expertise to bring new discoveries to market. Both companies will share costs and profits equally. AbbVie's $250 million contribution has been recorded as a liability on Calico's financial statements, which is reduced and reflected as a reduction to research and development expense as eligible research and development costs are incurred by Calico over the next few years.

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Note 7. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the nine months ended September 30, 2014 were as follows (in millions, unaudited):

Balance as of December 31, 2013	$11,492
Goodwill acquired	4,072
Goodwill reclassified to assets held for sale	(71)
Goodwill adjustment	(32)
Balance as of September 30, 2014	$15,461

Information regarding our acquisition-related intangible assets was as follows (in millions):

	As of December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Patents and developed technology	$7,282	$2,102	$5,180
Customer relationships	1,770	1,067	703
Trade names and other	534	351	183
Total	$9,586	$3,520	$6,066

	As of September 30, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
	(unaudited)		
Patents and developed technology	$6,515	$2,337	$4,178
Customer relationships	1,405	1,127	278
Trade names and other	648	360	288
Total	$8,568	$3,824	$4,744

Goodwill and intangible assets to be disposed of as a result of our Motorola Mobile disposition were included in "Assets held for sale" on the Consolidated Balance Sheet as of September 30, 2014 and accordingly, are not included in the table above. Amortization of these intangible assets was stopped as of the date they were deemed to be held for sale.

Amortization expense relating to acquisition-related intangible assets was $244 million and $769 million for the three and nine months ended September 30, 2013 and $285 million and $821 million for the three and nine months ended September 30, 2014. Such amounts do not include amortization expenses related to the intangible assets to be disposed of, which were included in "Net income (loss) from discontinued operations".

Additionally, in the third quarter of 2014, we recorded an impairment charge in "Cost of revenues" of $378 million related to a patent licensing royalty asset acquired in connection with the Motorola acquisition, which Google will retain subsequent to the disposal of Motorola Mobile. The asset was determined to be impaired due to prolonged decreased royalty payments and unpaid interest owed and was written down to its fair value during the quarter. Fair value was determined based on a discounted cash flow method and reflects a reduction in estimated future cash flows associated with the patent licensing royalty asset and falls within level 3 in fair value hierarchy.

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As of September 30, 2014, expected amortization expense relating to acquisition-related intangible assets for each of the next five years and thereafter was as follows (in millions, unaudited):

Remainder of 2014	$244
2015	852
2016	764
2017	686
2018	621
Thereafter	1,577
	$4,744

Note 8. Discontinued Operations

Motorola Mobile

On January 29, 2014, we entered into an agreement with Lenovo providing for the disposition of the Motorola Mobile business for a total purchase price of approximately $2.9 billion (subject to certain adjustments), including $1.4 billion to be paid at close, comprised of $660 million in cash and $750 million in Lenovo ordinary shares (subject to a share cap and floor). The remaining $1.5 billion will be paid in the form of an interest-free, three-year prepayable promissory note.

We will maintain ownership of the vast majority of the Motorola Mobile patent portfolio, including current patent applications and invention disclosures, which will be licensed back to Motorola Mobile for its continued operations. Additionally, in connection with the sale, we will indemnify Lenovo for certain potential liabilities of the Motorola Mobile business. The transaction is subject to the satisfaction of regulatory requirements, customary closing conditions and any other needed approvals and is expected to close in the fourth quarter of 2014.

Financial results of Motorola Mobile are presented as "Net income (loss) from discontinued operations" on the Consolidated Statements of Income for the three and nine months ended September 30, 2013 and 2014; and assets and liabilities of Motorola Mobile to be disposed of are presented as "Assets held for sale" and "Liabilities held for sale" on the Consolidated Balance Sheet as of September 30, 2014, respectively.

The following table presents financial results of the Motorola Mobile business included in "Net income (loss) from discontinued operations" for the three and nine months ended September 30, 2013 and 2014 (in millions, unaudited):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
Revenues	$1,139	$1,718	$3,155	$4,901
Loss from discontinued operations before income taxes	(307)	(217)	(909)	(590)
Benefits from income taxes	99	32	277	139
Net loss from discontinued operations	$(208)	$(185)	$(632)	$(451)

The following table presents the aggregate carrying amounts of the major classes of assets and liabilities related to the Motorola Mobile business to be disposed of as of September 30, 2014 (in millions, unaudited):

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Assets:	
Cash and cash equivalents	$160
Accounts receivable	1,086
Inventories	123
Prepaid expenses and other current assets	424
Prepaid expenses and other assets, non-current	254
Property and equipment, net	523
Intangible assets, net	947
Goodwill	71
Total assets	$3,588
Liabilities:	
Accounts payable	$1,005
Accrued compensation and benefits	117
Accrued expenses and other current liabilities	593
Deferred revenue, current	190
Other long-term liabilities	294
Total liabilities	$2,199

Motorola Home

In December 2012, we entered into an agreement with Arris and certain other persons providing for the disposition of the Motorola Home business. The transaction closed on April 17, 2013 (the date of divestiture). As such, financial results of Motorola Home through the date of divestiture were included in "Net income (loss) from discontinued operations" for the three and nine months ended September 30, 2013.

The following table presents financial results of the Motorola Home business included in "Net income (loss) from discontinued operations" for the three and nine months ended September 30, 2013 (in millions, unaudited):

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013 [(1)]
Revenues	$0	$804
Loss from discontinued operations before income taxes	0	(67)
Benefits from income taxes	0	16
Gain on disposal	15	762
Net income from discontinued operations	$15	$711

(1) The operating results of Motorola Home were included in our Consolidated Statements of Income from January 1, 2013 through the date of divestiture.

Note 9. Interest and Other Income, Net

The components of "Interest and other income, net", were as follows (in millions, unaudited):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
Interest income	$196	$187	$558	$524
Interest expense	(19)	(25)	(59)	(76)
Realized gains (losses) on available-for-sale investments, net	(26)	18	135	140
Foreign currency exchange losses, net	(159)	(67)	(268)	(269)
Realized gain on equity interest	0	0	0	126

Realized gain on non-marketable equity investments	0	1	0	139
Other income, net	22	19	18	51
Interest and other income, net	$14	$133	$384	$635

Note 10. Contingencies

Legal Matters

Antitrust Investigations

On November 30, 2010, the European Commission's (EC) Directorate General for Competition opened an investigation into various antitrust-related complaints against us. We believe we have adequately responded to all of the allegations made against us. We continue to cooperate with the EC and are pursuing a potential resolution that would avoid a finding of infringement and a fine.

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The Comision Nacional de Defensa de la Competencia in Argentina, the Competition Commission of India, the Taiwan Fair Trade Commission, Brazil's Council for Economic Defense and the Canadian Competition Bureau have also opened investigations into certain of our business practices.
State attorneys general from the states of Ohio and Mississippi have also issued Civil Investigative Demands relating to our business practices. We remain willing to cooperate with them if they have any further information requests.

Patent and Intellectual Property Claims

We have had patent, copyright, and trademark infringement lawsuits filed against us claiming that certain of our products, services, and technologies, including Android, Google Search, Google AdWords, Google AdSense, Google Books, Google News, Google Image Search, Google Chrome, Google Talk, Google Voice, Motorola devices and YouTube, infringe the intellectual property rights of others. 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, and may also cause us to change our business practices, and require development of 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 for a company or its suppliers in an ITC action could result in a prohibition on importing infringing products into the U.S. Since 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 for certain intellectual property infringement claims against them, 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. 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 impact our business.

Other

We are also regularly subject to claims, suits, government investigations, and other proceedings involving competition and antitrust (such as the pending investigation by the EC described above), intellectual property, privacy, tax, 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. Such claims, suits, government investigations, and other proceedings could result in fines, civil or criminal penalties, or other adverse consequences.
Certain of our outstanding legal matters include speculative claims for substantial or indeterminate amounts of damages. We record a liability when we believe that it is probable that a loss has been incurred and the amount can be reasonably estimated. We evaluate, on a monthly basis, developments in our legal matters that could affect the amount of liability that has been previously accrued, and make adjustments as appropriate. Significant judgment is required to determine both likelihood of there being and the estimated amount of a loss related to such matters.
With respect to our outstanding legal matters, based on our current knowledge, we believe that the amount or range of reasonably possible loss will not, either individually or in the aggregate, have a material adverse effect on our business, consolidated financial position, results of operations, or cash flows. However, the outcome of such legal matters is inherently unpredictable and subject to significant uncertainties.
We expense legal fees in the period in which they are incurred.
Taxes
We are under audit by the Internal Revenue Service (IRS) and various other tax authorities with regards to income tax and indirect tax matters. We have reserved for potential adjustments to our provision for income taxes and accrual of indirect taxes that may result from examinations by, or any negotiated agreements with, these tax authorities, and we believe that the final outcome of these examinations or agreements will not have a material effect on our results of

operations. If events occur which indicate payment of these amounts is unnecessary, the reversal of the liabilities would result in the recognition of benefits in the period we determine the liabilities are no longer necessary. If our estimates of the federal, state, and foreign income tax liabilities and indirect tax liabilities are less than the ultimate assessment, it would result in a further charge to expense.

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In March 2014, we received a tax assessment from the French tax authorities. We believe an adequate provision has been made and it is more likely than not that our tax position will be sustained. However, it is reasonably possible that resolution with the French tax authorities could result in an adjustment to our tax position.

Note 11. Net Income Per Share of Class A and Class B Common Stock and Class C Capital Stock

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

	Three Months Ended September 30,					
	2013			2014		
	(unaudited)					
	Class A	Class B	Class C	Class A	Class B	Class C
Basic net income (loss) per share:						
Numerator						
Allocation of undistributed earnings - continuing operations	$1,305	$277	$1,581	$1,257	$242	$1,499
Allocation of undistributed earnings - discontinued operations	(80)	(17)	(96)	(78)	(15)	(92)
Total	$1,225	$260	$1,485	$1,179	$227	$1,407
Denominator						
Number of shares used in per share computation	275,237	58,379	333,616	283,850	54,623	338,624
Basic net income (loss) per share:						
Continuing operations	$4.74	$4.74	$4.74	$4.42	$4.42	$4.42
Discontinued operations	(0.29)	(0.29)	(0.29)	(0.27)	(0.27)	(0.27)
Basic net income per share	$4.45	$4.45	$4.45	$4.15	$4.15	$4.15
Diluted net income (loss) per share:						
Numerator						
Allocation of undistributed earnings for basic computation - continuing operations	$1,305	$277	$1,581	$1,257	$242	$1,499
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares	277	0	0	242	0	0
Reallocation of undistributed earnings	0	(5)	0	(3)	(4)	3
Allocation of undistributed earnings - continuing operations	$1,582	$272	$1,581	$1,496	$238	$1,502
Allocation of undistributed earnings for basic computation - discontinued operations	$(80)	$(17)	$(96)	$(78)	$(15)	$(92)
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares	(17)	0	0	(15)	0	0
Reallocation of undistributed earnings	0	0	0	1	0	(1)
Allocation of undistributed earnings - discontinued operations	$(97)	$(17)	$(96)	$(92)	$(15)	$(93)
Denominator						
Number of shares used in basic computation	275,237	58,379	333,616	283,850	54,623	338,624
Weighted-average effect of dilutive securities						