STANFORD BUSINESS GRADUATE SCHOOL OF

CASE: A-233
DATE: 06/01/18

FAIR VALUE ACCOUNTING FOR FINANCIAL SECURITIES AT ALPHABET

Fair value measurement has long been highly controversial, and knowledgeable people have different and strongly held views about fair value as the principal or the only measurement attribute for financial instruments.

—Financial Accounting Standards Board (FASB), ASU 2016-01[1]

Beginning in fiscal year 2018, a new and relatively unnoticed accounting rule took effect that had the potential for a major impact on the reported earnings of companies holding financial assets or owing financial liabilities. Dubbed the *Financial Instruments—Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*, or Accounting Standards Update 2016-01 (ASU 2016-01), the updated rule sought to increase financial reporting transparency and relevancy by changing how companies accounted for equity. Specifically, the update required recognition of changes in fair value in net income and affected the presentation and disclosure requirements for financial instruments.

While certain financial institutions with significant financial assets, such as banks and insurance companies, seemed to be the most likely companies affected by the new guidance, entities across a broad range of industries were also significantly impacted—specifically, companies holding minority passive stakes[2] in other entities that had to be valued quarterly, whether that value had increased or decreased. This inherent volatility then flowed through a company's income statement, causing fluctuations in earnings per share, and calling into question the relevance of reported net income.

[1] For more information on ASU 2016-01, please see "Financial Instruments—Overall: Recognition and Measurement of Financial Assets and Financial Liabilities," *FASB Accounting Standards Codification*, January 2016, http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176167762170 (May 14, 2018).

[2] Minority stakes are generally defined as holdings under 20 percent ownership with a noncontrolling interest; minority passive stakes have no significant influence over the investee.

Jaclyn Foroughi, CFA, and Professor Anne Beyer prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

BRIEF HISTORY OF FAIR VALUE ACCOUNTING

Controversy surrounding fair value accounting dates back as far as the 1920s, when inflated revaluations of assets were blamed for the Stock Market Crash of 1929. In the aftermath of the Great Depression, a general move toward more conservative accounting and the use of historic cost accounting ensued (see **Cost Method** section below for an explanation of cost-based valuation). By 1940, the newly formed U.S. Securities and Exchange Commission (SEC) had all but eliminated the use of fair value accounting for financial reporting in the U.S.

Use of fair value accounting (see **Fair Value** section below for an explanation of fair value accounting) reemerged in the mid-1980s with the introduction of fair value standards aimed at reflecting the dynamic state of financial markets. For example, a fair value pension standard (FAS 87) was introduced in 1985, followed by a cluster of standards related to derivatives, hedging, and non-financial liabilities by both FASB and the International Accounting Standards Board (IASB)[3] that introduced aspects of fair value accounting (IAS 39, 1998; FAS 133, 1998; IAS 19, 1998; FRS 17, 2000; and FAS 158, 2006).

In 2005, FASB and IASB began a joint effort to simplify and converge their respective standards on the accounting for financial instruments. Originally issued in September 2006 as FASB Statement No. 157 *Fair Value Measurement*—before the global financial crisis began in 2008—the new standard provided guidance about how entities should determine fair value.[4] According to FASB, "Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."[5]

The following year, in February 2007, FASB Statement No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities* was added to expand but not require the use of the fair value measurement for financial assets and liabilities. As a result, accounting practices continued to diverge and to obfuscate comparability of financial statements across companies and industries.

In January 2016, FASB issued ASU 2016-01 *Financial Instruments—Overall*: *Recognition and Measurement of Financial Assets and Liabilities*, which amended the guidance on the classification and measurement of financial instruments. Among its changes, the most notable provision was ASU 2016-01, which added ASC 321 *Investments—Equity Securities* to provide detailed guidance for "investments in equity securities and other ownership interests in an entity,

---

[3] The IASB is the independent, accounting standard-setting body of the International Financial Reporting Standards (IFRS) Foundation. It was founded in 2001 and is responsible for developing International Financial Reporting Standards (IFRS), previously known as International Accounting Standards (IAS).

[4] FASB Statement No. 157 *Fair Value Measurement* was later subsumed into FASB ASC Topic 820: *Fair Value Measurements and Disclosures* issued in FASB's ASU 2011-04.

[5] FASB, "Statement of Financial Accounting Standards No. 157: Fair Value Measurements," September 2006, http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1218220130001&acceptedDisclaimer=true (May 14, 2018). In May 2011, IFRS 13 *Fair Value Measurement*, was issued along with FASB's ASU 2011-04 *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRSs*, with the goal of achieving a converged definition of fair value, measurement, and disclosure guidance. Under IFRS 13, the IASB defined "fair value" with nearly identical language to FASB's ASU 2011-04.

including investments in partnerships, unincorporated joint ventures, and limited liability companies as if those other ownership interests are equity securities."[6]

Historically, standard setters expanded the use of fair value accounting relative to historical cost, for example, in order to provide financial statement users with more decision-useful and timely information. This argument persisted with ASU 2016-01 as FASB asserted:

> …fair value with changes in the fair value presented in net income is a more relevant measurement attribute for equity investments and, thus, a benefit for users. That is because the total realizable value of most of those investments primarily could be realized ultimately by selling the equity instruments…In addition, reporting more timely information on the observable changes in fair value for those equity investments that were previously accounted for under the cost method will benefit both preparers and users.[7]

While the update offered greater transparency and relevancy with respect to asset values, fluctuations to reported income or expenses increased, both at the time of adoption and on an on-going basis, particularly from investments from noncore businesses. As a result, corporations and investors raised concerns about the effect of the new standard on key metrics such as earnings per share.

Despite these concerns, the use of fair value accounting continued to increase perhaps, in part, due to the growing influence of certain supporters, such as investment banks and asset management firms, in the accounting standard setting process.[8] Indeed, because fair value accounting tended to accelerate the recognition of gains in company earnings particularly in periods of rising asset prices, executives whose compensation was tied to company profitability stood to benefit from the prevailing accounting method.

PRIOR ACCOUNTING FOR MINORITY PASSIVE EQUITY INVESTMENTS

Prior to ASU 2016-01, companies accounted for unconsolidated minority equity investments using one of three methods: one of two fair value methods or the cost method.

Fair Value

Under both fair value methods, investments were carried at fair value on the balance sheet at each reporting date. In addition, the unrealized gain or loss, net of tax, was immediately recognized in either net income (this method was called the "Fair Value Option" or accounting for "trading" securities) or other comprehensive income (this method was called accounting for "available-for-sale" securities). If recognized as other comprehensive income, the realized gain or loss was reclassified from other comprehensive income to net income upon sale of the investment.

---

[6] ASU 2016-01, p. 48.

[7] FASB 2016-01, p. 201.

[8] For more on the influence of corporations in the standard-setting process, see Karthik Ramanna, *Political Standards: Corporate Interest, Ideology, and Leadership in the Shaping of Accounting Rules for the Market Economy* (Chicago: University of Chicago Press, 2015), p. 13.

Originally, fair value accounting with unrealized gains and losses recognized in net income was intended for trading securities that management planned to actively buy and sell for trading profits. However, when FASB Statement No. 159 introduced the Fair Value Option, companies were permitted to apply the method to most financial assets and liabilities, including available-for-sale securities, which were securities that management intended to hold for longer periods to earn capital gains, dividends, or interest revenue although the company could sell the security at any time for liquidity reasons or for an investment gain. While accounting standards for available-for-sale securities was considered the default classification for financial assets, in practice, companies had significant discretion over which of the two fair value methods to apply.

Cost Method

Under the cost method, investments in minority equity assets were shown on the balance sheet using the amount paid for the investment (cost) adjusted for any "other than temporary" impairments. With the exception of such impairments, any unrealized gains or losses were not reflected in net income nor other comprehensive income. Instead, upon the sale of the asset, the total realized gain or loss, specifically the difference between the sales price and the book value at the time of sale, net of tax, was recognized in net income.

Companies were permitted to apply the cost method only to equity investments that had no easily determinable fair value. Most companies also chose to account for non-marketable equity investments using the cost method even though they were also permitted to use fair value accounting under the Fair Value Option. When applying the cost method to value investments on balance sheets, companies were required to disclose estimated fair values of those investments in the footnotes.

ACCOUNTING FOR MINORITY PASSIVE EQUITY INVESTMENTS UNDER ASU 2016-01

Under the new standard, all minority passive equity investments, independent of whether they had readily determinable fair values, were recognized at fair value on the balance sheet with changes in fair value, net of tax, recognized in net income. Neither the cost method nor the fair value method under which unrealized gains and losses were included in other comprehensive income ("available-for-sale" method) were permissible as a result of the changing standard. A significant departure from previous accounting practices, the new standard was described as one with a "major impact on business…[with] corporate executives up in arms—and scrambling to comply."[9]

For equity investments without readily determinable fair values, the new standard provided two options for measuring fair value:

1. The investment may be revalued at the end of the quarter by executives, an accounting firm, or a valuation firm, or;

---

[9] William D. Cohan, "A Little-Known Accounting Change Could Have a Big Impact," *The New York Times*, May 12, 2017, https://www.nytimes.com/2017/05/12/business/dealbook/a-little-known-accounting-change-could-have-a-big-impact.html (May 14, 2018).

2. The investment may be revalued when there is an observable transaction involving the same equity investment, an observable transaction involving a similar equity investment from the same issuer, or an impairment.

FASB recognized that requiring firms to determine fair values of investments without readily determinable market prices led to inherent subjectivity in measurement and imposed significant costs on companies. Still, unlike previous standards, the new rules did not provide an exception from fair value accounting. To alleviate some measurement concerns, however, FASB provided companies with the second alternative rather than forcing companies to revalue non-marketable investments at the end of every quarter.

International Financial Reporting Standards (IFRS) 9, in Comparison

The IASB equivalent to ASU 2016-01, IFRS 9 *Financial Instruments*, was issued in July 2014 with an effective date of January 2018.[10] As originally intended, the standards issued by both FASB and IASB marked a significant step toward convergence and required most equity investments to be measured at fair value. However, differences remained.

Unlike U.S. GAAP, which sought to minimize the number of items recognized in other comprehensive income, IFRS 9 "allows an entity to make an irrevocable election at initial recognition to present subsequent changes in fair value in other comprehensive income for particular investments in equity instruments that otherwise are measured at fair value through profit or loss.'[11] In other words, if an entity elected to recognize changes in fair value in other comprehensive income, those gains or losses may not be reclassified to earnings upon sale of those investments.

ALPHABET'S INVESTMENT IN EQUITY SECURITIES

Founded in 1998 by Stanford University PhD students Larry Page and Sergey Brin, Alphabet Inc. [NasdaqGS: GOOG and GOOGL] (formerly "Google") grew exponentially from its humble beginnings as a web-based search engine to become one of the largest and most recognizable companies in the world. Having expanded its expertise to include online advertising technologies, cloud computing, software, hardware, and biotech, Google reorganized as Alphabet Inc. ("Alphabet") in August 2015 (see **Exhibit 1** for Alphabet's organizational structure). Consistently ranked as one of the most profitable companies in the world, Alphabet ended fiscal year 2017 with $110.9 billion in revenues and $12.7 billion in net income (see **Exhibit 2** for Alphabet's financial statements ending fiscal year 2017).

Marketable and Non-Marketable Securities

In August 2004, Google went public with a valuation of more than $23 billion on revenues of $3.2 billion and net income of $399 million. At the time, the company invested the more than $1.7 billion raised in the initial public offering (IPO) in marketable securities, primarily short-term securities issued by government agencies. Over the next 13 years, marketable securities

---

[10] IFRS 9 replaced IAS 39 *Financial Instruments: Recognition and Measurement.*

[11] ASUC 2016-01, p. 5.

increased at a 36 percent annualized rate to $91.2 billion at fiscal year-end 2017 (see **Exhibit 3** for a summary of marketable and non-marketable investments from 2002 through the first quarter of 2018).

Google began recording investments in non-marketable securities in 2005 when the company purchased a $1 billion, five percent equity interest in America Online (AOL), a wholly owned subsidiary of Time Warner, Inc [NYSE: TWX]. By the end of 2017, the book value of non-marketable securities on Alphabet's balance sheet had risen to $7.8 billion.

Corporate Venture Capital

In March 2009, Google's independent venture capital investment arm, GV (formerly Google Ventures), was founded. Beginning with a $100 million capital commitment from Google, GV was focused on seed and early stage startups across any industry while Google's corporate development team continued to pursue larger strategic investments. Subsequently, Google added CapitalG (formerly Google Capital), a growth equity investment fund founded in 2013; and Alphabet added Gradient Ventures, an early-stage fund focused on artificial intelligence founded in 2017, to its portfolio of investing vehicles.[12] From 2009 through 2017, GV, CapitalG, Gradient Ventures, and Google (collectively, "Alphabet") invested in 690 deals, making it the most active corporate venture capital investor during that period (Intel [NasdaqGS: INTC] was a close second with 683 deals). In 2017 alone, Alphabet invested in over 100 deals while Intel invested in 54.

Corporate venture capital investments are not uncommon; in fact, many corporations including Salesforce [NYSE: CRM], Qualcomm [NasdaqGS: QCOM], GE [NYSE: GE], Microsoft [NasdaqGs: MSFT], Comcast [NasdaqGS: CMCSA], Johnson & Johnson [NYSE: JNJ], and BMW [XETRA: BMW.DE] across a range of industries participate for both financial and strategic objectives. However, rising valuations of underlying companies can begin to diverge significantly from the cost basis of earlier investments (see **Exhibit 4** for a summary of significant venture capital investments made by Alphabet). In August 2013, for example, GV invested $258 million in mobile ridesharing application developer Uber Corporation in a Series C round of funding at a post-money valuation of $3.76 billion. Less than a year later, GV invested again at a Series D valuation of $17 billion. By January 2018, less than four years later, Uber was valued at over $68 billion with GV's stake estimated to be worth around $4 billion![13]

Still, just as rising valuations of investment companies can diverge from the cost basis of earlier investments, so can lowered valuations. In March 2014, GV participated in a $160 million Series F round in data management software and services provider, Cloudera, at a valuation of $1.8 billion. Weeks later, Intel Corp. agreed to purchase a 17 percent stake in Cloudera at a $4.1 billion valuation, a significant premium to the price paid by GV and other investors just weeks earlier. Three years later, Cloudera went public with a market valuation of just under $2 billion, a steep decline from its earlier valuation and a prime example of the volatility inherent in investments recorded at fair value.

---

[12] Equity investment information excludes grants made by Google's Launchpad Accelerator and Google.org.

[13] Assumes GV bought between 6.0 to 6.8 percent of Uber in 2013 and maintained the same percentage ownership despite later investments and subsequent dilution.

ALPHABET AND ASU 2016-01

Accounting Practices Prior to ASU 2016-01

Prior to adopting ASU 2016-01, Alphabet accounted for marketable securities at fair value with unrealized gains and losses recognized on the balance sheet (see **Exhibits 5 to 8** for various notes to Alphabet's consolidated financial statements for year ended 2017). With the exception of mutual funds, Alphabet classified marketable securities as available-for-sale. Under this accounting method, management retained significant control over when gains and losses appeared on the income statement since only *realized* gains and losses (i.e., at the point of sale) were part of net income while *unrealized* gains and losses (i.e., before sale) showed up only in Other Comprehensive Income, a measure that attracted significantly less investor attention.

Non-marketable equity securities were measured at cost on the balance sheet. Realized marketable and non-marketable gains and losses on equity securities were recognized in other income and expenses (OI&E) on the income statement. In a blog post issued ahead of Alphabet's first quarter 2018 earnings (see **Exhibit 9** for excerpts from this blog post), Chief Accountant Amie Thuener acknowledged:

> Market transactions for marketable equity securities occur daily in the stock market; transactions for non-marketable equity securities occur sporadically and are generally not within our control. As a result of this new accounting standard, we expect increased *volatility* in OI&E on the income statement.

With the adoption of ASU 2016-01, beginning in the first quarter of 2018, Alphabet measured non-marketable equity securities at fair value on the balance sheet when transactions occurred. Marketable securities continued to be measured at fair value on the balance sheet. In addition to realized gains and losses, unrealized gains and losses on both marketable and non-marketable securities were recognized in OI&E on the income statement and performance fees accrued in connection with the recognition of equity security gains[14] (see **Exhibit 10** Alphabet's income statement for the first quarter of 2018; and **Exhibit 11** for notes to the consolidated financial statements for first quarter ended 2018).

In the first quarter of 2018, Alphabet reported net income of $9.4 billion. Of this, approximately $3 billion was from gains on equity. According to Alphabet Chief Financial Officer (CFO) Ruth Porat:

> …we try to lay out all the component parts clearly on the cover of the earnings release so that you would have it all in one place [see **Exhibit 12** for Alphabet's first quarter 2018 earnings press release]. I think you summarized it right, but I'll just direct everybody to the earnings release. The net of which was the gain from the equity investments was $2.4 billion to net income. That is net of performance

[14] Alphabet had compensation arrangements with payouts based on investment returns. Such performance fees were based on the estimated payout amounts and recognized the expense on the income statement in the same period as the corresponding equity security gain. The amounts recorded for performance fees were not material for the fiscal years 2015 through 2017.

> fees as well as the release of a deferred tax asset that we have, so it does reflect $3 billion in gains. And I think you know this, but this quarter, the accounting standard requires marks for everything where there is an observable raise.
>
> So, these are unrealized—the majority of them are unrealized, not actually monetized by Alphabet, and then the performance fees are calculated based on investment returns. They're accrued but not paid until an exit event occurs, and they do appear in OpEx [Operating Expenses].[15]

Indeed, while Alphabet provided a clear high-level breakdown of the effect of the new accounting standard, little transparency was given with respect to its investment in Uber—neither its relative impact nor its valuation; in fact, Uber did not appear anywhere in Alphabet's first quarter 2018 filing nor its historical filings. The *Wall Street Journal* remarked:

> It's difficult to use Alphabet's gain to calculate a current value for all of Uber, however. Alphabet didn't break out how much of the $3 billion gain was attributable to its Uber stake and how much to other investments. In addition, Alphabet's stake in Uber, originally representing about 7 percent of the company, is believed to have been diluted by Uber's financings since then.[16]

And despite the updated rule's best intentions to provide better information, investors were left confused about Alphabet's first quarter of 2018 results. According to *Forbes*:

> Fluctuating currency exchange rates and shifting accounting rules make first quarter results at Alphabet, Google's parent, appear a little better than they really were on Monday. That fooled some investors for a few minutes, causing a momentary surge in Google's stock price in after-hours trading. But once analysts cut through the complications, the share price dropped back to where it was before the results came out.[17]

Other analysts suggested that confusion surrounding the new accounting rules depressed Alphabet's stock price. While "Alphabet beat Q1 analyst estimates…the numbers were highly confusing. The lack of true non-GAAP numbers continues to hold back the stock with an estimated EPS impact around $13 per share."[18] Consistent with the view that the new standard obfuscated rather than enhanced information available to investors, Brent Callinicos, treasurer and chief accountant at Google, wrote in a letter to FASB in May 2013:

> …recording unrealized gains and losses on equity securities through the income statement causes volatility within Other Income and Expense. We believe this

---

[15] Alphabet Inc., "Alphabet Inc. Q1 2018 Earnings Conference Call," April 23, 2018.

[16] Michael Rapaport, "What's Behind $3 Billion of Alphabet's Earnings Gain?" *The Wall Street Journal*, https://blogs.wsj.com/moneybeat/2018/04/24/whats-behind-3-billion-of-alphabets-earnings-gain/ (May 25, 2018).

[17] Aaron Pressman, "Why Google's Stock Price Leapt and Crashed in an Instant," *Forbes*, April 24, 2018, http://fortune.com/2018/04/23/google-stock-price-earnings-uber/ (May 25, 2018).

[18] Stone Fox Capital, "Alphabet: Confusing Costs Hurt," Seeking Alpha, April 24, 2018, https://seekingalpha.com/article/4165316-alphabet-confusing-costs-hurt (May 29, 2018).

> would divert investors' focus from our core business results related to products and services. Additionally, we feel that including both realized gains and losses on our equity securities in the income statement misrepresents our investment results and is not consistent with our investment objectives as it implies a short-term trading perspective rather than our longer term portfolio management view.[19]

Uncertainty over the impact of the new standard was not limited to Alphabet. With a much larger portfolio of marketable securities relative to Alphabet, conglomerate Berkshire Hathaway [NYSE: BRK-A and BRK-B] was also outspoken in its view of the new accounting rules.

In February 2018, chairman and CEO of Berkshire Hathaway Warren Buffett warned shareholders of the effects of the company's impending implementation of ASU 2016-01. In his annual letter to investors, Buffett revealed that the new rule would "severely distort Berkshire's net income figures and very often mislead commentators and investors."[20] He continued:

> The new rule says that the net change in *unrealized* investment gains and losses in stocks we hold must be included in all net income figures we report to you. That requirement will produce some truly wild and capricious swings in our GAAP bottom-line. Berkshire owns $170 billion of marketable stocks (not including our shares of Kraft Heinz), and the value of these holdings can easily swing by $10 billion or more within a quarterly reporting period. Including gyrations of that magnitude in reported net income will swamp the truly important numbers that describe our operating performance. For analytical purposes, Berkshire's "bottom-line" will be useless.[21]

Just over two months later, Berkshire Hathaway reported a 48.7 percent first quarter gain in operating earnings to $5.3 billion. However, the strong business results were overshadowed by a first quarter loss of $1.1 billion, compared to net income of $4 billion in the prior year's quarter. As alluded to in Buffett's annual letter to shareholders, investments were marked down by nearly $6.3 billion. Indeed, given the size of Berkshire Hathaway's equity portfolio, a single-digit percentage change in the value of its equities could have a massive impact on reported earnings from quarter to quarter.

CONCLUSION

As companies began to adopt and implement ASU 2016-01 in fiscal year 2018, the full ramifications of the accounting update continued to unfold. With public and private market valuations near all-time highs, volatility in fair market value investments continued to increase. As a result, earnings figures oscillated, leaving the integrity of their presentation in question. Reflecting the sentiment of analysts and other market observers, business writer William Cohan wrote in the *New York Times*:

---

[19] Brent Callinicos, "Project: 2013-221 Financial Instruments," Reference Number 2013-221, Comment Letter No. 13, May 15, 2013.

[20] Warren E. Buffett, "Berkshire Hathaway Inc. Shareholder Letter," Berkshire Hathaway Inc., February 24, 2018, http://www.berkshirehathaway.com/letters/2017ltr.pdf (May 25, 2018), p. 3.

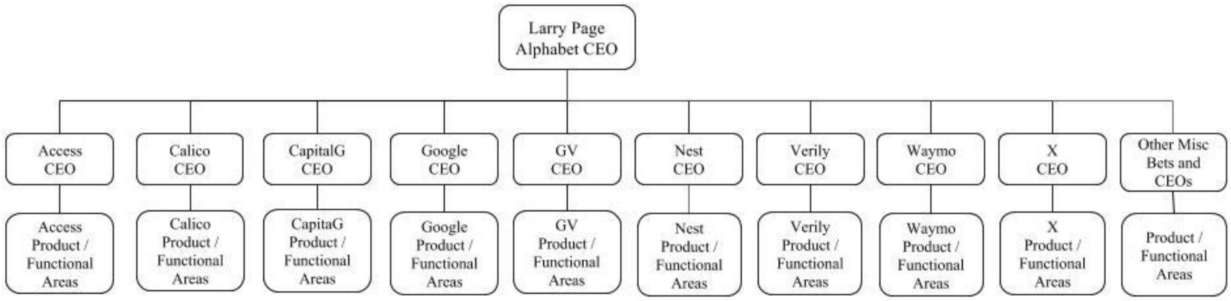
[21] Ibid.

> I am sure the Financial Accounting Standards Board was [sic] intended well when it passed this new rule. In its 232-page document outlining the new proposal, it eloquently described how the new disclosure would add transparency and understanding of what these outside investments are worth. And that may well turn out to be the case.
>
> But the new rule also has the potential to confuse investors about the value of these equity stakes, too. It would force corporate executives to remind listeners on every quarterly conference call that the fluctuations in the value of these investments have nothing to do with their core business and should be ignored, and that something like "adjusted net income" without these fluctuations is the way to look at their earnings.[22]

Despite the best intentions of FASB, the takeaway remained clear: To achieve a better level of understanding with respect to equity investment valuations, adjustments to financial statements remained an imperative.

[22] Cohan, loc. cit.

Exhibit 1
Alphabet Inc. Organizational Structure



Google includes our main Internet products such as Search, Advertising, Commerce, Google Maps, YouTube, Google Cloud, Android, Chrome, and Google Play as well as our hardware initiatives. Our technical infrastructure and some newer efforts like virtual reality are also included in Google. Google generates revenues primarily from advertising, sales of digital content, apps and cloud offerings, and sales of hardware products.

Additional businesses include Access, Calico, CapitalG, GV, Nest, Verily, Waymo, and X. Revenues from these businesses are derived primarily through the sales of Internet and TV services through Google Fiber, sales of Nest products and services, and licensing and R&D services through Verily.

Source: Correspondence from Alphabet Inc. filed with the U.S. Securities Exchange Commission, December 15, 2017, https://www.sec.gov/Archives/edgar/data/1652044/000165204417000048/filename1.htm.

Exhibit 2
Alphabet Inc. 2017 Form 10-K Consolidated Financial Statements

Alphabet 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, 2016	2017
Assets		
Current assets:		
Cash and cash equivalents	$ 12,918	$ 10,715
Marketable securities	73,415	91,156
Total cash, cash equivalents, and marketable securities	86,333	101,871
Accounts receivable, net of allowance of $467 and $674	14,137	18,336
Income taxes receivable, net	95	369
Inventory	268	749
Other current assets	4,575	2,983
Total current assets	105,408	124,308
Non-marketable investments	5,878	7,813
Deferred income taxes	383	680
Property and equipment, net	34,234	42,383
Intangible assets, net	3,307	2,692
Goodwill	16,468	16,747
Other non-current assets	1,819	2,672
Total assets	$ 167,497	$ 197,295
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 2,041	$ 3,137
Short-term debt	-	-
Accrued compensation and benefits	3,976	4,581
Accrued expenses and other current liabilities	6,144	10,177
Accrued revenue share	2,942	3,975
Deferred revenue	1,099	1,432
Income taxes payable, net	554	881
Total current liabilities	16,756	24,183
Long-term debt	3,935	3,969
Deferred revenue, non-current	202	340
Income taxes payable, non-current	4,677	12,812
Deferred income taxes	226	430
Other long-term liabilities	2,665	3,059
Total liabilities	28,461	44,793
Commitments and Contingencies (Note 10)		
Stockholders' equity:		
Convertible preferred stock, $0.001 par value per share	-	-
Class A and Class B common stock, and Class C capital stock and additional paid-in capital, $0.001 par value per share	36,307	40,247
Accumulated other comprehensive loss	(2,402)	(992)
Retained earnings	105,131	113,247
Total stockholders' equity	139,036	152,502
Total liabilities and stockholers' equity	$ 167,497	$ 197,295

Exhibit 2 (continued)
Alphabet Inc. 2017 Form 10-K Consolidated Financial Statements

Alphabet Inc.
CONSOLIDATED STATEMENTS OF INCOME
(In millions, except share amounts)

	As of December 31,		
	2015	**2016**	**2017**
Revenues	$ 74,989	$ 90,272	$ 110,855
Costs and expenses:			
Cost of revenues	28,164	35,138	45,583
Research and development	12,282	13,948	16,625
Sales and marketing	9,047	10,485	12,893
General and administrative	6,136	6,985	6,872
European Commission fine	-	-	2,736
Total costs and expenses	55,629	66,556	84,709
Income from operations	19,360	23,716	26,146
Other income (expense), net	291	434	1,047
Income before income taxes	19,651	24,150	27,193
Provision for income taxes	3,303	4,672	14,531
Net income	$ 16,348	$ 19,478	$ 12,662
Less: Adjustment Payment to Class C capital stockholders	522	-	-
Net income available to all stockholders	$ 15,826	$ 19,478	$ 12,662
Basic net income per share of Class A and B common stock	$ 23.11	$ 28.32	$ 18.27
Basic net income per share of Class C capital stock	$ 24.63	$ 28.32	$ 18.27
Diluted net income per share of Class A and B common stock	$ 22.84	$ 27.85	$ 18.00
Diluted net income per share of Class C capital stock	$ 24.34	$ 27.85	$ 18.00

Exhibit 2 (continued)
Alphabet Inc. 2017 Form 10-K Consolidated Financial Statements

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

	As of December 31,		
	2015	**2016**	**2017**
Net income	$ 16,348	$ 19,478	$ 12,662
Other comprehensive income (loss):			
Change in foreign currency translation adjustment	(1,067)	(599)	1,543
Available-for-sale investments:			
Change in net unrealized gains (losses)	(715)	(314)	307
Less: reclassification adjustment for net (gains) losses included in net income	208	221	105
Net change (net of tax effect of $29, $0, and $0)	(507)	(93)	412
Cash flow hedges:			
Change in net unrealized gains (losses)	676	515	(638)
Less: reclassification adjustment for net (gains) losses included in net income	(1,003)	(351)	93
Net change (net of tax effect of $115, $64, and $247)	(327)	164	(545)
Other comprehensive income (loss)	(1,901)	(528)	1,410
Comprehensive income	$ 14,447	$ 18,950	$ 14,072

Exhibit 2 (continued)
Alphabet Inc. 2017 Form 10-K Consolidated Financial Statements

Alphabet Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	As of December 31,		
	2015	**2016**	**2017**
Operating activities			
Net income	$ 16,348	$ 19,478	$ 12,662
Adjustments:			
Depreciation and impairment of property and equipment	4,132	5,267	6,103
Amortization and impairment of intangible assets	931	877	812
Stock-based compensation expense	5,203	6,703	7,679
Deferred income taxes	(179)	(38)	258
Loss on marketable and non-marketable investments, net	334	275	194
Other	212	174	137
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(2,094)	(2,578)	(3,768)
Income taxes, net	(179)	3,125	8,211
Other assets	(318)	312	(2,164)
Accounts payable	203	110	731
Accrued expenses and other liabilities	1,597	1,515	4,891
Accrued revenue share	339	593	955
Deferred revenue	43	223	390
Net cash provided by operating activities	26,572	36,036	37,091
Investing activities			
Purchases of property and equipment	(9,950)	(10,212)	(13,184)
Proceeds from disposals of property and equipment	35	240	99
Purchases of marketable securities	(74,368)	(84,509)	(92,195)
Maturities and sales of marketable securities	62,905	66,895	73,959
Purchases of non-marketable investments	(2,326)	(1,109)	(1,745)
Maturities and sales of non-marketable investments	154	494	533
Cash collateral related to securities lending	(350)	(2,428)	-
Investments in reverse purchase agreements	425	450	-
Acquisitions, net of cash acquired, and purchases of intangible assets	(236)	(986)	(287)
Proceeds from collection of notes receivable	-	-	1,419
Net cash used in investing activities	(23,711)	(31,165)	(31,401)
Financing activities			
Net payments related to stock-based award activities	(2,375)	(3,304)	(4,166)
Adjustment Payment to Class C capital stockholders	(47)	-	-
Repurchases of capital stock	(1,780)	(3,693)	(4,846)
Proceeds from issuance of debt, net of costs	13,705	8,729	4,291
Repayments of debt	(13,728)	(10,064)	(4,377)
Proceeds from sale of subsidiary shares	-	-	800
Net cash used in financing activities	(4,225)	(8,332)	(8,298)
Effect of exchange rate changes on cash and cash equivalents	(434)	(170)	405
Net decrease in cash and cash equivalents	(1,798)	(3,631)	(2,203)
Cash and cash equivalents at beginning at period	18,347	16,549	12,918
Cash and cash equivalents at end of period	$ 16,549	$ 12,918	$ 10,715
Supplemental disclosures of cash flow information			
Cash paid for taxes, net of refunds	$ 3,651	$ 1,643	$ 6,191
Cash paid for interest, net of amounts capitalized	$ 96	$ 84	$ 84

Source: Company filings.

Exhibit 3
Alphabet Inc. Summary of Marketable and Non-marketable Investments (2002-1Q18)

	Marketable Securities		Non-marketable Securities	
As of December 31,	Amount (in millions)	Year-over-year Increase	Amount (in millions)	Year-over-year Increase
2002	$ 89		$ -	
2003	$ 186	110%	$ -	
2004	$ 1,705	818%	$ -	
2005	$ 4,157	144%	$ 14	
2006	$ 7,699	85%	$ 1,032	7081%
2007	$ 8,137	6%	$ 1,060	3%
2008	$ 7,189	-12%	$ 85	-92%
2009	$ 14,287	99%	$ 129	51%
2010	$ 21,345	49%	$ 523	305%
2011	$ 34,643	62%	$ 790	51%
2012	$ 33,310	-4%	$ 1,469	86%
2013	$ 39,819	20%	$ 1,976	35%
2014	$ 46,048	16%	$ 3,079	56%
2015	$ 56,517	23%	$ 5,183	68%
2016	$ 73,415	30%	$ 5,878	13%
2017	$ 91,156	24%	$ 7,813	33%
1Q18	$ 90,227	-1%	$ 10,976	40%

Source: Compiled by author using company balance sheets (cost method before ASU 2016-01).

Exhibit 4
Alphabet Inc. Summary of Significant Corporate Venture Capital Investments ($US MN)

Date	Investment	Alphabet Subsidiary	Amount Invested	Round	Total Raised	Post-Money Valuation	Most Recent Valuation	Recent Valuation Date
Aug-13	Uber Corporation	GV	$ 258	Series C	$ 361	$ 3,760	$ 68,000	Jan-18
Jun-14	Uber Corporation	GV	$ -	Series D	$ 1,200	$ 17,000	$ 68,000	Jan-18
Dec-13	Robinhood	GV	$ -	Seed	$ 3	$ -	$ 5,600	May-18
Sep-14	Robinhood	GV	$ -	Series A	$ 13	$ -	$ 5,600	May-18
May-18	Robinhood	CapitalG	$ -	Series D	$ 363	$ 5,600	$ 5,600	May-18
Oct-14	Slack Technologie	GV	$ -	Series D	$ 120	$ 1,120	$ 5,100	Sep-17
Apr-15	Slack Technologie	GV	$ -	Series E	$ 160	$ 2,800	$ 5,100	Sep-17
Oct-14	Magic Leap	Google	$ -	Series B	$ 542	$ 2,000	$ 6,000	Mar-18
Feb-16	Magic Leap	Google	$ -	Series C	$ 794	$ 4,500	$ 6,000	Mar-18
Jan-15	SpaceX	Google	$ -	Series F	$ 1,000	$ 12,000	$ 21,500	Nov-17
Sep-15	Oscar Health	CapitalG and GV	$ -	Series B-II	$ 33	$ 1,750	$ 3,200	Mar-18
Feb-16	Oscar Health	CapitalG and GV	$ -	Series C	$ 400	$ 2,700	$ 3,200	Mar-18
Mar-18	Oscar Health	CapitalG	$ -	Series D	$ 165	$ 3,200	$ 3,200	Mar-18
Aug-16	Airbnb	CapitalG	$ -	Series F	$ 555	$ 30,000	$ 31,000	Mar-17
Nov-16	Stripe	CapitalG	$ -	Series D	$ 150	$ 9,200	$ 9,200	Nov-16
Oct-17	Lyft	CapitalG	$ -	Series H	$ 1,000	$ 11,000	$ 11,500	Nov-17

"$-" indicates an undisclosed amount.

Source: Compiled by author using data from *CBInsights*.

Exhibit 5
Excerpts from Alphabet Inc. 2017 10-K Note 1 to Consolidated Financial Statements

Fair Value of Financial Instruments

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 is 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 - Include other 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.

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.

Cash, Cash Equivalents, and Marketable Securities

We have classified and accounted for our marketable securities as available-for-sale. After consideration of our risk versus reward objectives, as well as our liquidity requirements, we may sell these securities prior to their stated maturities. We carry these securities at fair value, and report the unrealized gains and losses, net of taxes, as a component of stockholders' equity. We determine any realized gains or losses on the sale of marketable securities on a specific identification method, and we record such gains and losses as a component of other income (expense), net.

Non-Marketable Investments

We account for non-marketable equity investments either under the equity or cost method. Investments through which we exercise significant influence but do not have control over the investee are accounted for under the equity method. Investments through which we are not able to exercise significant influence over the investee are accounted for under the cost method.

We account for our non-marketable investments that meet the definition of a debt security as available-for-sale securities.

Source: Company filings.

Exhibit 6
Excerpts from Alphabet Inc. 2017 10-K Note 3 to Consolidated Financial Statements

Note 3. Financial Instruments

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, 2016 and 2017 (in millions):

	As of December 31, 2016					
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents	Marketable Securities
Cash	$ 7,078	$ 0	$ 0	$ 7,078	$ 7,078	$ 0
Level 1:						
Money market and other funds	4,783	0	0	4,783	4,783	0
U.S. government notes	38,454	46	(215)	38,285	613	37,672
Marketable equity securities	160	133	0	293	0	293
	43,397	179	(215)	43,361	5,396	37,965
Level 2:						
Time deposits(1)	142	0	0	142	140	2
Mutual funds(2)	204	7	0	211	0	211
U.S. government agencies	1,826	0	(11)	1,815	300	1,515
Foreign government bonds	2,345	18	(7)	2,356	0	2,356
Municipal securities	4,757	15	(65)	4,707	2	4,705
Corporate debt securities	12,993	114	(116)	12,991	2	12,989
Mortgage-backed securities	12,006	26	(216)	11,816	0	11,816
Asset-backed securities	1,855	2	(1)	1,856	0	1,856
	36,128	182	(416)	35,894	444	35,450
Total	$ 86,603	$ 361	$ (631)	$ 86,333	$ 12,918	$ 73,415

	As of December 31, 2017					
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents	Marketable Securities
Cash	$ 7,158	$ 0	$ 0	$ 7,158	$ 7,158	$ 0
Level 1:						
Money market and other funds	1,833	0	0	1,833	1,833	0
U.S. government notes	37,256	2	(310)	36,948	1,241	35,707
Marketable equity securities	242	100	(2)	340	0	340
	39,331	102	(312)	39,121	3,074	36,047
Level 2:						
Time deposits(1)	359	0	0	359	357	2
Mutual funds(2)	232	20	0	252	0	252
U.S. government agencies	3,713	0	(29)	3,684	0	3,684
Foreign government bonds	2,948	6	(14)	2,940	0	2,940
Municipal securities	7,631	2	(53)	7,580	0	7,580
Corporate debt securities	24,269	21	(135)	24,155	126	24,029
Mortgage-backed securities	11,157	9	(163)	11,003	0	11,003
Asset-backed securities	5,632	4	(17)	5,619	0	5,619
	55,941	62	(411)	55,592	483	55,109
Total	$ 102,430	$ 164	$ (723)	$ 101,871	$ 10,715	$ 91,156

(1) The majority of our time deposits are foreign deposits.
(2) The fair value option was elected for mutual funds with gains (losses) recognized in other income (expense), net.

During the years ended December 31, 2016 and 2017, there were no other-than-temporary impairment losses.

Source: Company filings.

Exhibit 7

Excerpts from Alphabet Inc. 2017 10-K Note 4 to Consolidated Financial Statements

Note 4. Non-Marketable Investments

Our non-marketable investments include non-marketable equity investments and non-marketable debt securities.

Non-Marketable Equity Investments

Our non-marketable equity investments are investments in privately-held companies accounted for under the equity or cost method and are not required to be consolidated under the variable interest or voting models. As of December 31, 2016 and 2017, investments accounted for under the cost method had a carrying value of $3.0 billion and $4.5 billion, respectively, and a fair value of approximately $8.1 billion and $8.8 billion, respectively.

Non-Marketable Debt Securities

Our non-marketable debt securities are primarily preferred stock that are redeemable at our option and convertible notes issued by private companies and measured at fair value as available for sale debt securities. The cost of these securities was $1.1 billion as of December 31, 2016 and 2017.

The following table presents a reconciliation for our non-marketable debt securities measured and recorded at fair value on a recurring basis, using significant unobservable inputs (Level 3) (in millions):

	Year Ended December 31,	
	2016	**2017**
Beginning balance	$ 1,024	$ 1,165
Total net gains (losses)		
Included in earnings	0	(10)
Included in other comprehensive income	106	707
Purchases	78	88
Sales	(18)	(2)
Settlements	(25)	(54)
Ending balance	$ 1,165	$ 1,894

Source: Company filings.

Exhibit 8
Excerpts from Alphabet Inc. 2017 10-K Note 7 to Consolidated Financial Statements

Accumulated Other Comprehensive Income (Loss)

The components of AOCI, net of 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, 2014	$ (980)	$ 421	$ 586	$ 27
Other comprehensive income (loss) before reclassifications	(1,067)	(715)	676	(1,106)
Amounts reclassified from AOCI	0	208	(1,003)	(795)
Other comprehensive income (loss)	(1,067)	(507)	(327)	(1,901)
Balance as of December 31, 2015	$ (2,047)	$ (86)	$ 259	$ (1,874)
Other comprehensive income (loss) before reclassifications	(599)	(314)	515	(398)
Amounts reclassified from AOCI	0	221	(351)	(130)
Other comprehensive income (loss)	(599)	(93)	164	(528)
Balance as of December 31, 2016	$ (2,646)	$ (179)	$ 423	$ (2,402)
Other comprehensive income (loss) before reclassifications	1,543	307	(638)	1,212
Amounts reclassified from AOCI	0	105	93	198
Other comprehensive income (loss)	1,543	412	(545)	1,410
Balance as of December 31, 2017	$ (1,103)	$ 233	$ (122)	$ (992)

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

		Gains (Losses) Reclassified from AOCI to the Consolidated Statement of Income		
		Year Ended December 31,		
AOCI Components	Location	2015	2016	2017
Unrealized gains (losses) on available-for-sale investments				
	Other income (expense), net	$ (208)	$ (221)	$ (105)
	Provision for income taxes	0	0	0
	Net of tax	$ (208)	$ (221)	$ (105)
Unrealized gains (losses) on cash flow hedges				
Foreign exchange contracts	Revenue	$ 1,399	$ 539	$ (169)
Interest rate contracts	Other income (expense), net	5	5	5
	Benefit (provision) for income taxes	(401)	(193)	71
	Net of tax	$ 1,003	$ 351	$ (93)
Total amount reclassified, net of tax		$ 795	$ 130	$ (198)

Source: Company filings.

Exhibit 9
Excerpts from Alphabet Inc. April 2, 2018 Blog Post

- ***New accounting for equity security investments***

As of January 1, 2018, we were required to adopt a new accounting standard (ASU 2016-01) that changes the way companies account for equity security investments. Our equity security investments include both marketable equity securities (investments in publicly traded companies) and non-marketable equity securities (investments in privately held companies).

Previously, marketable equity security investments were measured at fair value with unrealized gains and losses recognized on the balance sheet. Non-marketable equity security investments were measured at cost on the balance sheet. Realized marketable and non-marketable gains and losses on our equity security investments were recognized in OI&E on the income statement.

Beginning in Q1 2018, non-marketable equity security investments will be measured at fair value on the balance sheet when transactions occur. Marketable equity securities will continue to be measured at fair value on the balance sheet. In addition to realized gains and losses, unrealized gains and losses on marketable and non-marketable equity security investments will also be recognized in OI&E on the income statement.

Market transactions for marketable equity securities occur daily in the stock market; transactions for non-marketable equity securities occur sporadically and are generally not within our control. As a result of this new accounting standard, we expect increased *volatility* in OI&E on the income statement.

Below is a summary of accounting treatment for realized and unrealized gains and losses:

	Marketable equity securities		**Non-marketable equity securities**	
	Realized	***Unrealized***	***Realized***	***Unrealized***
Before 1/1/2018	Income Statement	Balance Sheet	Income Statement	Not reflected on our financial statements
After 1/1/2018	Income Statement	Income Statement	Income Statement	Income Statement

Source: Company filings.

Exhibit 10
Alphabet Inc. 2018 Form 10-Q Consolidated Statements of Income

Alphabet Inc.
CONSOLIDATED STATEMENTS OF INCOME
(in millions, except share amounts)

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2018
Revenues	$ 24,750	$ 31,146
Costs and expenses:		
Cost of revenues	9,795	13,467
Research and development	3,942	5,039
Sales and marketing	2,644	3,604
General and administrative	1,801	2,035
European Commission fine	-	-
Total costs and expenses	18,182	24,145
Income from operations	6,568	7,001
Other income (expense), net	251	3,542
Income before income taxes	6,819	10,543
Provision for income taxes	1,393	1,142
Net income	$ 5,426	$ 9,401
Less: Adjustment Payment to Class C capital stockholders	-	-
Net income available to all stockholders	$ 5,426	$ 9,401
Basic net income per share of Class A and B common stock	$ 7.85	$ 13.53
Basic net income per share of Class C capital stock	$ 7.85	$ 13.53
Diluted net income per share of Class A and B common stock	$ 7.73	$ 13.33
Diluted net income per share of Class C capital stock	$ 7.73	$ 13.33

Source: Company filings.

Exhibit 11
Excerpts from Alphabet Inc. 2018 10-Q Note 3 to Consolidated Financial Statements

Equity Investments

Marketable equity securities

Our marketable equity securities are publicly traded stocks or funds measured at fair value and classified within Level 1 and 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.

Prior to January 1, 2018, we accounted for the majority of our marketable equity securities at fair value with unrealized gains and losses recognized in accumulated other comprehensive income on the balance sheet. Realized gains and losses on marketable equity securities sold or impaired were recognized in other income (expense), net.

On January 1, 2018, we adopted ASU 2016-01 which changed the way we account for marketable equity securities. Our marketable equity securities are measured at fair value and starting January 1, 2018 unrealized gains and losses are recognized in other income (expense), net. Upon adoption, we reclassified $98 million net unrealized gains related to marketable equity securities from accumulated other comprehensive income to opening retained earnings.

Non-marketable equity securities

Our non-marketable equity securities are investments in privately held companies without readily determinable market values.

Prior to January 1, 2018, we accounted for our non-marketable equity securities at cost less impairment. Realized gains and losses on non-marketable securities sold or impaired were recognized in other income (expense), net. As of December 31, 2017, non-marketable equity securities accounted for under the cost method had a carrying value of $4.5 billion and a fair value of approximately $8.8 billion.

On January 1, 2018, we adopted ASU 2016-01 which changed the way we account for non-marketable securities. We now adjust the carrying value of our non-marketable equity securities to fair value upon observable transactions for identical or similar investments of the same issuer or impairment (referred to as the measurement alternative). All gains and losses on non-marketable equity securities, realized and unrealized, are recognized in other income (expense), net. Because we adopted ASU 2016-01 prospectively, we will recognize unrealized gains that occurred in prior periods in the first period after January 1, 2018 when there is an observable transaction for our securities.

As of March 31, 2018, non-marketable equity securities had a carrying value of approximately $7.3 billion, of which $3.6 billion was remeasured to fair value based on observable transactions during the three months ended March 31, 2018. The following is a summary of unrealized gains and losses recorded in other income (expense), net, and included as adjustments to the carrying value of non-marketable equity securities held as of March 31, 2018 (in millions, unaudited):

	Three Months Ended March 31, 2018	
Upward adjustments (gross unrealized gains)	$	2,511
Downward adjustments (including impairment) (gross unrealized losses)		(23)
Total	$	2,488

Gains and losses on marketable and non-marketable equity securities

Realized and unrealized gains and losses for our marketable and non-marketable equity securities for the three months ended March 31, 2018 are summarized below (in millions, unaudited):

	Three Months Ended March 31, 2018	
Realized gain (loss) for equity securities sold	$	387
Unrealized gain (loss) on equity securities held		2,644
Total gain (loss) recognized in other income (expense), net	$	3,031

Source: Company filings.

Exhibit 12
Excerpts from Alphabet Inc. First Quarter 2018 Results Press Release

Q1 2018 impact from equity securities*

Our Q1 2018 financial results were affected by a new accounting standard (ASU 2016-01) that changes the way companies account for equity security investments. As a result, all gains and losses, unrealized and realized, on equity security investments are recognized in OI&E on the income statement. Performance fees related to the equity security gains in Q1 2018 were accrued in the period. Income tax expense on the equity security gains was offset by the release of a deferred tax asset valuation allowance. The following summarizes the impact to our Q1 2018 results (in millions, except for EPS and percentages; unaudited):

	Three Months Ended March 31, 2018
Operating expenses impact:	
Accrued performance fees	$632
OI&E impact:	
Gain on equity securities	$3,031
Income tax impact:	
Deferred income tax expense	$475
Release of deferred tax asset valuation allowance	($475)
Net income impact	$2,399
Diluted EPS impact	$3.40
Effective tax rate reduction	5 %

*Additional information about the new accounting standard affecting our equity security investments can be found in our blog post on April 2, 2018 and our Q1 2018 10-Q.

Source: Company filings.