

Google Inc.  
Form 10-Q  
May 10, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended March 31, 2011

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: 000-50726

**Google Inc.**

(Exact name of registrant as specified in its charter)

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**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  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  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

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

At May 2, 2011, there were 252,993,468 shares of Google's Class A common stock outstanding and 69,258,357 shares of Google's Class B common stock outstanding.

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**For the Quarterly Period Ended March 31, 2011**

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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 revenue;

seasonal fluctuations in internet usage and traditional retail seasonality, which are likely to cause fluctuations in our quarterly results;

our plans to continue to invest in systems, facilities, and infrastructure, increase our hiring, provide competitive compensation programs, and continue our current pace of acquisitions;

the decline 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 Google AdSense fees we receive from advertisers 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 the exposure to fluctuations in foreign currency exchange rates;

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 resolution of a Department of Justice investigation;

the fact that traffic acquisition costs will fluctuate in the future;

continued investments in international markets;

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our future compensation expenses;

the increase of costs related to hedging activities under our foreign exchange risk management program;

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; and

fluctuations in our capital expenditures;

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, and similar expressions. These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties, which could cause our actual results to differ materially from those reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Quarterly Report on Form 10-Q, and in particular, the risks discussed under the caption Risk Factors in Part II, Item 1A 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.

**Table of Contents****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, 2010	As of March 31, 2011 (unaudited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 13,630	\$ 12,415
Marketable securities	21,345	24,260
Total cash, cash equivalents, and marketable securities (including securities loaned of \$4,031 and \$4,484)	34,975	36,675
Accounts receivable, net of allowance of \$101 and \$133	4,252	4,216
Receivable under reverse repurchase agreements	750	575
Deferred income taxes, net	259	320
Income taxes receivable, net	0	27
Prepaid revenue share, expenses and other assets	1,326	1,497
Total current assets	41,562	43,310
Prepaid revenue share, expenses and other assets, non-current	442	390
Deferred income taxes, net, non-current	265	21
Non-marketable equity securities	523	666
Property and equipment, net	7,759	8,249
Intangible assets, net	1,044	1,016
Goodwill	6,256	6,308
Total assets	\$ 57,851	\$ 59,960
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 483	\$ 516
Short-term debt	3,465	3,216
Accrued compensation and benefits	1,410	945
Accrued expenses and other current liabilities	961	1,464
Accrued revenue share	885	871
Securities lending payable	2,361	1,880
Deferred revenue	394	440
Income taxes payable, net	37	0
Total current liabilities	9,996	9,332
Deferred revenue, non-current	35	32
Income taxes payable, non-current	1,200	1,322

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Other long-term liabilities	379	423
Stockholders' equity:		
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 additional paid-in capital, \$0.001 par value per share: 9,000,000 shares authorized; 321,301 (Class A 250,413, Class B 70,888) and par value of \$321 (Class A \$250, Class B \$71) and 322,127 (Class A 252,670, Class B 69,457) and par value of \$322 (Class A \$253, Class B \$69) shares issued and outstanding	18,235	18,804
Accumulated other comprehensive income	138	381
Retained earnings	27,868	29,666
Total stockholders' equity	46,241	48,851
Total liabilities and stockholders' equity	\$ 57,851	\$ 59,960

See accompanying notes.

**Table of Contents****Google Inc.****CONSOLIDATED STATEMENTS OF INCOME****(In millions, except per share amounts)**

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2011</b>
	<b>(unaudited)</b>	
Revenues	\$ 6,775	\$ 8,575
Costs and expenses:		
Cost of revenues (including stock-based compensation expense of \$6 and \$49)	2,452	2,936
Research and development (including stock-based compensation expense of \$191 and \$237)	818	1,226
Sales and marketing (including stock-based compensation expense of \$54 and \$78)	607	1,026
General and administrative (including stock-based compensation expense of \$40 and \$68)	410	591
Charge related to potential resolution of Department of Justice investigation	0	500
Total costs and expenses	4,287	6,279
Income from operations	2,488	2,296
Interest and other income, net	18	96
Income before income taxes	2,506	2,392
Provision for income taxes	551	594
Net income	\$ 1,955	\$ 1,798
Net income per share of Class A and Class B common stock:		
Basic	\$ 6.15	\$ 5.59
Diluted	\$ 6.06	\$ 5.51

See accompanying notes.



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

	<b>Three Months Ended March 31, 2010                      2011 (unaudited)</b>	
<b>Operating activities</b>		
Net income	\$ 1,955	\$ 1,798
Adjustments:		
Depreciation and amortization of property and equipment	264	301
Amortization of intangible and other assets	67	100
Stock-based compensation expense	291	432
Excess tax benefits from stock-based award activities	(12)	(24)
Deferred income taxes	(13)	289
Other	2	36
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	46	181
Income taxes, net	381	73
Prepaid revenue share, expenses and other assets	(157)	(78)
Accounts payable	120	27
Accrued expenses and other liabilities	(394)	37
Accrued revenue share	23	(33)
Deferred revenue	11	33
Net cash provided by operating activities	2,584	3,172
<b>Investing activities</b>		
Purchases of property and equipment	(239)	(890)
Purchases of marketable securities	(12,487)	(7,591)
Maturities and sales of marketable securities	9,495	4,645
Investments in non-marketable equity securities	(3)	(131)
Cash collateral returned from securities lending	0	(481)
Maturities of reverse repurchase agreements	0	175
Acquisitions, net of cash acquired, and purchases of intangible and other assets	(190)	(148)
Net cash used in investing activities	(3,424)	(4,421)
<b>Financing activities</b>		
Net proceeds (payments) related to stock-based award activities	(38)	116
Excess tax benefits from stock-based award activities	12	24
Repurchase of common stock in connection with an acquisition	(97)	0
Proceeds from issuance of short-term debt	0	2,184
Repayment of short-term debt	0	(2,435)
Net cash used in financing activities	(123)	(111)
Effect of exchange rate changes on cash and cash equivalents	(43)	145
Net decrease in cash and cash equivalents	(1,006)	(1,215)
Cash and cash equivalents at beginning of year	10,198	13,630

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Cash and cash equivalents at end of period	\$ 9,192	\$ 12,415
<b>Supplemental disclosures of cash flow information</b>		
Cash paid for income taxes	\$ 179	\$ 210
<b>Non-cash financing activity:</b>		
Fair value of common stock issued in connection with an acquisition	\$ 95	\$ 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**

***Nature of Operations***

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

***Basis of Consolidation***

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

***Unaudited Interim Financial Information***

The accompanying Consolidated Balance Sheet as of March 31, 2011, the Consolidated Statements of Income for the three months ended March 31, 2010 and 2011, and the Consolidated Statements of Cash Flows for the three months ended March 31, 2010 and 2011 are unaudited. These unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (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 March 31, 2011, our results of operations for the three months ended March 31, 2010 and 2011, and our cash flows for the three months ended March 31, 2010 and 2011. The results of operations for the three months ended March 31, 2011 are not necessarily indicative of the results to be expected for the year ending December 31, 2011.

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, 2010 filed with the SEC on February 11, 2011.

***Use of Estimates***

The preparation of consolidated financial statements in conformity with U.S. 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, 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.

**Table of Contents****Note 2. Net Income Per Share of Class A and Class B Common Stock**

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

	For the Three Months Ended March 31,			
	2010		2011	
	Class A	Class B	Class A	Class B
(unaudited)				
Basic net income per share:				
Numerator				
Allocation of undistributed earnings	\$ 1,501	\$ 454	\$ 1,406	\$ 392
Denominator				
Weighted-average common shares outstanding	244,099	73,796	251,355	70,172
Number of shares used in per share computation	244,099	73,796	251,355	70,172
Basic net income per share	\$ 6.15	\$ 6.15	\$ 5.59	\$ 5.59
Diluted net income per share:				
Numerator				
Allocation of undistributed earnings for basic computation	\$ 1,501	\$ 454	\$ 1,406	\$ 392
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares	454	0	392	0
Reallocation of undistributed earnings to Class B shares	0	(6)	0	(5)
Allocation of undistributed earnings	\$ 1,955	\$ 448	\$ 1,798	\$ 387
Denominator				
Number of shares used in basic computation	244,099	73,796	251,355	70,172
Weighted-average effect of dilutive securities				
Add:				
Conversion of Class B to Class A common shares outstanding	73,796	0	70,172	0
Employee stock options, including warrants issued under Transferable Stock Option program	3,591	82	3,327	55
Restricted shares and restricted stock units	1,122	0	1,529	0
Number of shares used in per share computation	322,608	73,878	326,383	70,227
Diluted net income per share	\$ 6.06	\$ 6.06	\$ 5.51	\$ 5.51

The net income per share amounts are the same for Class A and Class B common stock because the holders of each class are legally entitled to equal per share distributions whether through dividends or in liquidation.

**Table of Contents****Note 3. Cash and Investments**

Cash, cash equivalents, and marketable securities consist of the following (in millions):

	As of December 31, 2010	As of March 31, 2011 (unaudited)
Cash and cash equivalents:		
Cash	\$ 4,652	\$ 5,040
Cash equivalents:		
Time deposits	973	549
Money market and other funds <sup>(1)</sup>	7,547	6,672
U.S. government notes	300	1
Foreign government bonds	150	153
Corporate debt securities	8	0
<b>Total cash and cash equivalents</b>	<b>13,630</b>	<b>12,415</b>
Marketable securities:		
Time deposits	304	252
Money market mutual funds	3	1
U.S. government agencies	1,857	1,835
U.S. government notes	3,930	4,901
Foreign government bonds	1,172	1,626
Municipal securities	2,503	2,563
Corporate debt securities	5,742	6,810
Agency residential mortgage-backed securities	5,673	6,098
Marketable equity security	161	174
<b>Total marketable securities</b>	<b>21,345</b>	<b>24,260</b>
<b>Total cash, cash equivalents, and marketable securities</b>	<b>\$ 34,975</b>	<b>\$ 36,675</b>

<sup>(1)</sup> The balances at December 31, 2010 and March 31, 2011 include \$1.6 billion and \$1.3 billion of cash collateral received in connection with our securities lending program, which was invested in reverse repurchase agreements maturing within three months. See below for further discussion on this program.

The following table summarizes unrealized gains and losses related to our investments in marketable securities designated as available-for-sale (in millions):

	Adjusted Cost	As of December 31, 2010		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Time deposits	\$ 304	\$ 0	\$ 0	\$ 304
Money market mutual funds	3	0	0	3
U.S. government agencies	1,864	1	(8)	1,857
U.S. government notes	3,950	30	(50)	3,930
Foreign government bonds	1,154	23	(5)	1,172
Municipal securities	2,492	16	(5)	2,503

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Corporate debt securities	5,600	167	(25)	5,742
Agency residential mortgage-backed securities	5,649	56	(32)	5,673
Marketable equity security	150	11	0	161
Total	\$ 21,166	\$ 304	\$ (125)	\$ 21,345

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	Adjusted Cost	As of March 31, 2011 (unaudited)		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Time deposits	\$ 252	\$ 0	\$ 0	\$ 252
Money market mutual funds	1	0	0	1
U.S. government agencies	1,846	0	(11)	1,835
U.S. government notes	4,938	20	(57)	4,901
Foreign government bonds	1,618	20	(12)	1,626
Municipal securities	2,548	17	(2)	2,563
Corporate debt securities	6,677	166	(33)	6,810
Agency residential mortgage-backed securities	6,090	51	(43)	6,098
Marketable equity security	150	24	0	174
Total	\$ 24,120	\$ 298	\$ (158)	\$ 24,260

Gross unrealized gains and losses on cash equivalents were not material at December 31, 2010 and March 31, 2011.

We recognized gross realized gains of \$28 million and \$41 million for the three months ended March 31, 2010 and 2011. Gross realized losses were not material for the three months ended March 31, 2010. We recognized gross realized losses of \$14 million for the three months ended March 31, 2011. We determine realized gains and losses on the sale of marketable securities on a specific identification method, and we reflect such 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, designated as available-for-sale and classified by the contractual maturity date of the security (in millions):

	As of March 31, 2011 (unaudited)
Due in 1 year	\$ 2,953
Due in 1 year through 5 years	6,632
Due in 5 years through 10 years	5,986
Due after 10 years	8,515
Total	\$ 24,086

The following tables present fair values and gross unrealized losses for those investments that were in an unrealized loss position as of December 31, 2010 and March 31, 2011 aggregated by investment category and the length of time that individual securities have been in a continuous loss position (in millions):

Security Description	As of December 31, 2010 Less than 12 Months Unrealized	
	Fair Value	Loss
U.S. government agencies	\$ 831	\$ (8)
U.S. government notes	2,225	(50)
Foreign government bonds	129	(5)
Municipal securities	962	(5)
Corporate debt securities	1,061	(25)
Agency mortgage-backed securities	1,675	(32)

Total	\$ 6,883	\$ (125)
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Security Description	As of March 31, 2011	
	Fair Value	Unrealized Loss
	(unaudited)	
U.S. government agencies	\$ 1,030	\$ (11)
U.S. government notes	2,673	(57)
Foreign government bonds	910	(12)
Municipal securities	734	(2)
Corporate debt securities	1,908	(33)
Agency mortgage-backed securities	2,055	(43)
<b>Total</b>	<b>\$ 9,310</b>	<b>\$ (158)</b>

As of December 31, 2010, we did not have any investments in marketable securities that were in an unrealized loss position for a period of 12 months or greater. As of March 31, 2011, our investments in marketable securities that were in an unrealized loss position for a period of 12 months or greater was not material.

*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 secured by collateral in the form of cash or securities. Cash collateral is invested in reverse repurchase agreements. We classify loaned securities as cash equivalents or marketable securities on the accompanying Consolidated Balance Sheets. We record the cash collateral as an asset with a corresponding liability. We classify reverse repurchase agreements maturing within three months as cash equivalents and those longer than three months as receivable under reverse repurchase agreements on the accompanying Consolidated Balance Sheets. For lending agreements collateralized by securities, we do not record an asset or liability as we are not permitted to sell or repledge the associated collateral.

**Note 4. Short-Term Debt**

We have a debt financing program of up to \$3.0 billion through the issuance of commercial paper. Net proceeds from the commercial paper program are used for general corporate purposes. As of March 31, 2011, we had \$2.7 billion of commercial paper outstanding recorded as short-term debt, with a weighted-average interest rate of 0.3% that matures at various dates through November 2011. The estimated fair value of the commercial paper approximates its carrying value. In conjunction with this program, we established a \$3.0 billion revolving credit facility expiring on June 30, 2013. The interest rate for the credit facility is determined based on a formula using certain market rates. As of March 31, 2011, we were in compliance with the financial covenant in the credit facility. No amounts were outstanding under the credit facility as of March 31, 2011.

Additionally, as of March 31, 2011, we had \$468 million outstanding under a secured promissory note with an interest rate of 1.0% that matures in December 2011. Proceeds of this note were used for the acquisition of an office building in New York City.

**Note 5. Derivative Financial Instruments**

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 exchange-traded interest rate futures contracts to hedge interest rate exposures on certain fixed income securities. Our program is not designated for trading or speculative purposes.

We recognize derivative instruments as either assets or liabilities on 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 to accumulated other comprehensive income (AOCI) on the accompanying Consolidated