

Google Inc.
Form 10-Q
October 29, 2010
Table of Contents

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 September 30, 2010

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)

Edgar Filing: Google Inc. - Form 10-Q

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 Website, 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 October 25, 2010, there were 248,407,078 shares of Google's Class A common stock outstanding and 71,368,036 shares of Google's Class B common stock outstanding.

Table of Contents

GOOGLE INC.

INDEX

	Page No.
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1	
<u>Financial Statements</u>	
<u>Consolidated Balance Sheets - December 31, 2009 and September 30, 2010 (unaudited)</u>	3
<u>Consolidated Statements of Income - Three and Nine Months Ended September 30, 2009 and 2010 (unaudited)</u>	4
<u>Consolidated Statements of Cash Flows - Nine Months Ended September 30, 2009 and 2010 (unaudited)</u>	5
<u>Notes to Consolidated Financial Statements (unaudited)</u>	6
Item 2	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
Item 3	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	37
Item 4	
<u>Controls and Procedures</u>	38
<u>PART II. OTHER INFORMATION</u>	
Item 1	
<u>Legal Proceedings</u>	39
Item 1A	
<u>Risk Factors</u>	39
Item 2	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	51
Item 6	
<u>Exhibits</u>	52
<u>Signature</u>	53
<u>Exhibit Index</u>	54

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, 2009	As of September 30, 2010 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,198	\$ 11,257
Marketable securities	14,287	22,123
Total cash, cash equivalents, and marketable securities (including securities loaned of \$0 and \$3,652)	24,485	33,380
Accounts receivable, net of allowance of \$79 and \$65	3,178	3,616
Receivable under reverse repurchase agreements	0	875
Deferred income taxes, net	644	138
Income taxes receivable, net	23	228
Prepaid revenue share, expenses and other assets	837	1,210
Total current assets	29,167	39,447
Prepaid revenue share, expenses and other assets, non-current	415	406
Deferred income taxes, net, non-current	263	406
Non-marketable equity securities	129	485
Property and equipment, net	4,845	5,506
Intangible assets, net	775	993
Goodwill	4,903	6,099
Total assets	\$ 40,497	\$ 53,342
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 216	\$ 528
Short-term debt	0	2,122
Accrued compensation and benefits	982	1,104
Accrued expenses and other current liabilities	570	841
Accrued revenue share	694	752
Securities lending payable	0	2,861
Deferred revenue	285	322
Total current liabilities	2,747	8,530
Deferred revenue, non-current	42	33
Income taxes payable, non-current	1,392	1,098

Edgar Filing: Google Inc. - Form 10-Q

Other long-term liabilities	312	391
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 additional paid-in capital, \$0.001 par value per share: 9,000,000 shares authorized; 317,772 (Class A 243,611, Class B 74,161) and par value of \$318 (Class A \$244, Class B \$74) and 319,234 (Class A 247,489, Class B 71,745) and par value of \$319 (Class A \$247, Class B \$72) shares issued and outstanding	15,817	17,435
Accumulated other comprehensive income	105	531
Retained earnings	20,082	25,324
Total stockholders' equity	36,004	43,290
Total liabilities and stockholders' equity	\$ 40,497	\$ 53,342

See accompanying notes.

Table of Contents**GOOGLE INC.****CONSOLIDATED STATEMENTS OF INCOME**

(In millions, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2010	2009	2010
	(unaudited)			
Revenues	\$ 5,945	\$ 7,286	\$ 16,977	\$ 20,881
Costs and expenses:				
Cost of revenues (including stock-based compensation expense of \$15, \$8, \$41 and \$22)	2,226	2,552	6,436	7,471
Research and development (including stock-based compensation expense of \$196, \$244, \$546 and \$637)	758	994	2,107	2,711
Sales and marketing (including stock-based compensation expense of \$62, \$75, \$179 and \$185)	498	661	1,401	1,897
General and administrative (including stock-based compensation expense of \$45, \$53, \$122 and \$136)	389	532	1,202	1,403
Total costs and expenses	3,871	4,739	11,146	13,482
Income from operations	2,074	2,547	5,831	7,399
Interest and other income (expense), net	(7)	167	(19)	255
Income before income taxes	2,067	2,714	5,812	7,654
Provision for income taxes	428	547	1,266	1,692
Net income	\$ 1,639	\$ 2,167	\$ 4,546	\$ 5,962
Net income per share of Class A and Class B common stock:				
Basic	\$ 5.18	\$ 6.80	\$ 14.39	\$ 18.73
Diluted	\$ 5.13	\$ 6.72	\$ 14.27	\$ 18.49

See accompanying notes.

Table of Contents**GOOGLE INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In millions)

	Nine Months Ended September 30, 2009 2010 (unaudited)	
Operating activities		
Net income	\$ 4,546	\$ 5,962
Adjustments:		
Depreciation and amortization of property and equipment	943	787
Amortization of intangibles and other assets	216	228
Stock-based compensation expense	888	980
Excess tax benefits from stock-based award activities	(64)	(43)
Deferred income taxes	(288)	23
Other	(26)	(7)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(127)	(456)
Income taxes, net	97	(295)
Prepaid revenue share, expenses and other assets	313	(355)
Accounts payable	9	314
Accrued expenses and other liabilities	(14)	316
Accrued revenue share	57	69
Deferred revenue	35	32
Net cash provided by operating activities	6,585	7,555
Investing activities		
Purchases of property and equipment	(589)	(1,473)
Purchases of marketable securities	(19,587)	(37,589)
Maturities and sales of marketable securities	17,016	30,369
Investments in non-marketable equity securities	(46)	(265)
Cash collateral received from securities lending	0	2,861
Investments in reverse repurchase agreements	0	(875)
Acquisitions, net of cash acquired, and purchases of intangible and other assets	(40)	(859)
Net cash used in investing activities	(3,246)	(7,831)
Financing activities		
Net proceeds (payments) related to stock-based award activities	11	(65)
Excess tax benefits from stock-based award activities	64	43
Repurchase of common stock in connection with acquisitions	0	(801)
Issuance of short-term debt, maturities of 3 months or less, net	0	737
Issuance of short-term debt, maturities longer than 3 months	0	1,384
Net cash provided by financing activities	75	1,298
Effect of exchange rate changes on cash and cash equivalents	16	37

Edgar Filing: Google Inc. - Form 10-Q

Net increase in cash and cash equivalents	3,430	1,059
Cash and cash equivalents at beginning of year	8,657	10,198
Cash and cash equivalents at end of period	\$ 12,087	\$ 11,257
Supplemental disclosures of cash flow information		
Cash paid for income taxes	\$ 1,453	\$ 1,954
Non-cash financing activity:		
Fair value of common stock issued and vested options assumed in connection with acquisitions	\$ 0	\$ 750

See accompanying notes.

Table of Contents

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 provide highly targeted advertising and global internet search solutions as well as hosted applications.

Basis of Consolidation

The Consolidated Financial Statements include the accounts of Google and our wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated.

Unaudited Interim Financial Information

The accompanying Consolidated Balance Sheet as of September 30, 2010, the Consolidated Statements of Income for the three and nine months ended September 30, 2009 and 2010, and the Consolidated Statements of Cash Flows for the nine months ended September 30, 2009 and 2010 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 September 30, 2010, our results of operations for the three and nine months ended September 30, 2009 and 2010, and our cash flows for the nine months ended September 30, 2009 and 2010. The results of operations for the three and nine months ended September 30, 2010 are not necessarily indicative of the results to be expected for the year ending December 31, 2010.

These unaudited interim Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and related notes included in our 2009 Annual Report on Form 10-K filed on February 12, 2010.

Use of Estimates

The preparation of interim 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, 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 September 30,				For the Nine Months Ended September 30,			
	2009	2010	(unaudited)		2009	2010	(unaudited)	
	Class A	Class B	Class A	Class B	Class A	Class B	Class A	Class B
Basic net income per share:								
Numerator								
Allocation of undistributed earnings	\$ 1,253	\$ 386	\$ 1,677	\$ 490	\$ 3,470	\$ 1,076	\$ 4,596	\$ 1,366
Denominator								
Weighted-average common shares outstanding	241,914	74,583	246,521	72,096	241,116	74,774	245,341	72,946
Less: Weighted-average unvested common shares subject to repurchase or cancellation	0	0	0	0	(7)	0	0	0
Number of shares used in per share computation	241,914	74,583	246,521	72,096	241,109	74,774	245,341	72,946
Basic net income per share	\$ 5.18	\$ 5.18	\$ 6.80	\$ 6.80	\$ 14.39	\$ 14.39	\$ 18.73	\$ 18.73
Diluted net income per share:								
Numerator								
Allocation of undistributed earnings for basic computation	\$ 1,253	\$ 386	\$ 1,677	\$ 490	\$ 3,470	\$ 1,076	\$ 4,596	\$ 1,366
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares	386	0	490	0	1,076	0	1,366	0
Reallocation of undistributed earnings to Class B shares	0	(3)	0	(5)	0	(7)	0	(16)
Allocation of undistributed earnings	\$ 1,639	\$ 383	\$ 2,167	\$ 485	\$ 4,546	\$ 1,069	\$ 5,962	\$ 1,350
Denominator								
Number of shares used in basic computation	241,914	74,583	246,521	72,096	241,109	74,774	245,341	72,946
Weighted-average effect of dilutive securities								
Add:								
Conversion of Class B to Class A common shares outstanding	74,583	0	72,096	0	74,774	0	72,946	0
Unvested common shares subject to repurchase or cancellation	0	0	0	0	7	0	0	0
Employee stock options, including warrants issued under Transferable Stock Option program	2,583	75	2,904	59	2,155	84	3,219	70
Restricted shares and restricted stock units	666	0	856	0	456	0	984	0
Number of shares used in per share computation	319,746	74,658	322,377	72,155	318,501	74,858	322,490	73,016
Diluted net income per share	\$ 5.13	\$ 5.13	\$ 6.72	\$ 6.72	\$ 14.27	\$ 14.27	\$ 18.49	\$ 18.49

The net income per share amounts are the same for Class A and Class B 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, 2009	As of September 30, 2010 (unaudited)
Cash and cash equivalents:		
Cash	\$ 4,303	\$ 4,046
Cash equivalents:		
Time deposits	3,740	1,041
Money market and other funds ⁽¹⁾	2,153	5,635
U.S. government agencies	2	0
U.S. government notes	0	500
Corporate debt securities	0	35
Total cash and cash equivalents	10,198	11,257
	As of December 31, 2009	As of September 30, 2010 (unaudited)
Marketable securities:		
Time deposits	1,250	257
Money market mutual funds	28	3
U.S. government agencies	3,703	1,969
U.S. government notes	2,492	3,831
Foreign government bonds	37	1,288
Municipal securities	2,130	2,349
Corporate debt securities	2,822	6,403
Agency residential mortgage-backed securities	1,578	5,739
Commercial mortgage-backed securities	48	46
Marketable equity security	199	238
Total marketable securities	14,287	22,123
Total cash, cash equivalents and marketable securities	\$ 24,485	\$ 33,380

⁽¹⁾ The balance at September 30, 2010 includes \$2.0 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. No similar amounts were outstanding as of December 31, 2009.

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

As of December 31, 2009

Edgar Filing: Google Inc. - Form 10-Q

	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Time deposits	\$ 1,250	\$ 0	\$ 0	\$ 1,250
Money market mutual funds	28	0	0	28
U.S. government agencies	3,700	5	(2)	3,703
U.S. government notes	2,520	0	(28)	2,492
Foreign government bonds	37	0	0	37
Municipal securities	2,100	30	0	2,130
Corporate debt securities	2,826	13	(17)	2,822
Agency residential mortgage-backed securities	1,585	5	(12)	1,578
Commercial mortgage-backed securities	47	1	0	48
Marketable equity security	145	54	0	199
Total	\$ 14,238	\$ 108	\$ (59)	\$ 14,287

Table of Contents

	Adjusted Cost	As of September 30, 2010 Gross Unrealized Gains Gross Unrealized Losses		Fair Value
		(unaudited)		
Time deposits	\$ 257	\$ 0	\$ 0	\$ 257
Money market mutual funds	3	0	0	3
U.S. government agencies	1,962	7	0	1,969
U.S. government notes	3,725	106	0	3,831
Foreign government bonds	1,243	46	(1)	1,288
Municipal securities	2,324	26	(1)	2,349
Corporate debt securities	6,136			