

Google Inc.  
Form 10-Q  
August 09, 2007  
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 June 30, 2007

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)

**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)

Edgar Filing: Google Inc. - Form 10-Q

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

At July 31, 2007, the number of shares outstanding of Google's Class A common stock was 232,900,877 shares and the number of shares outstanding of Google's Class B common stock was 79,234,301 shares.

**Table of Contents**

**GOOGLE INC.**

**INDEX**

	<b>Page No.</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
Item 1	
<u>Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets December 31, 2006 and June 30, 2007 (unaudited)</u>	3
<u>Condensed Consolidated Statements of Income Three and Six Months Ended June 30, 2006 and 2007 (unaudited)</u>	4
<u>Condensed Consolidated Statements of Cash Flows Six Months Ended June 30, 2006 and 2007 (unaudited)</u>	5
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	6
Item 2	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
Item 3	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	30
Item 4	
<u>Controls and Procedures</u>	31
<b><u>PART II. OTHER INFORMATION</u></b>	
Item 1	
<u>Legal Proceedings</u>	32
Item 1A	
<u>Risk Factors</u>	32
Item 2	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	43
Item 4	
<u>Submission of Matters to a Vote of Security Holders</u>	44
Item 6	
<u>Exhibits</u>	45
<u>Signatures</u>	46
<u>Exhibit Index</u>	47
Certifications	

**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****GOOGLE INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except par value)

	As of December 31, 2006	As of June 30, 2007 (unaudited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,544,671	\$ 4,493,652
Marketable securities	7,699,243	8,009,883
Accounts receivable, net of allowance of \$16,914 and \$26,747	1,322,340	1,648,680
Deferred income taxes, net	29,713	78,068
Prepaid revenue share, expenses and other assets	443,880	627,240
Total current assets	13,039,847	14,857,523
Prepaid revenue share, expenses and other assets, non-current	114,455	147,154
Deferred income taxes, net, non-current		98,421
Non-marketable equity securities	1,031,850	1,038,804
Property and equipment, net	2,395,239	3,219,280
Intangible assets, net	346,841	339,579
Goodwill	1,545,119	1,723,124
Total assets	\$ 18,473,351	\$ 21,423,885
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 211,169	\$ 136,483
Accrued compensation and benefits	351,671	330,951
Accrued expenses and other current liabilities	265,872	276,723
Accrued revenue share	370,364	452,472
Deferred revenue	105,136	122,566
Income taxes payable	375	
Total current liabilities	1,304,587	1,319,195
Deferred revenue, long-term	20,006	21,673
Deferred income taxes, net	40,421	
Income taxes payable, long-term		340,762
Other long-term liabilities	68,497	82,647
Commitments and contingencies		
Stockholders' equity:		
Class A and Class B common stock, \$0.001 par value: 9,000,000 shares authorized; 308,997 (Class A 227,670, Class B 81,327) and par value of \$309 (Class A \$228, Class B \$81) and 311,273 (Class A 231,855, Class B 79,418) and par value of \$311 (Class A \$232, Class B \$79) shares issued and outstanding, excluding 1,296	309	311

## Edgar Filing: Google Inc. - Form 10-Q

(Class A 1,045, Class B 251) and 734 (Class A 614, Class B 120) shares subject to repurchase at December 31, 2006 and June 30, 2007

Additional paid-in capital	11,882,906	12,576,560
Accumulated other comprehensive income	23,311	29,248
Retained earnings	5,133,314	7,053,489
<b>Total stockholders' equity</b>	<b>17,039,840</b>	<b>19,659,608</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 18,473,351</b>	<b>\$ 21,423,885</b>

See accompanying notes.

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

(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2007	2006	2007
	(unaudited)			
Revenues	\$ 2,455,991	\$ 3,871,985	\$ 4,709,746	\$ 7,535,956
Costs and expenses:				
Cost of revenues (including stock-based compensation expense of \$2,322, \$7,659, \$4,606 and \$12,048)	989,032	1,560,255	1,893,151	3,030,682
Research and development (including stock-based compensation expense of \$70,564, \$156,983, \$143,650 and \$277,771)	282,552	532,106	529,151	940,490
Sales and marketing (including stock-based compensation expense of \$14,285, \$36,385, \$30,214 and \$63,635)	196,397	355,604	387,340	658,156
General and administrative (including stock-based compensation expense of \$21,978, \$40,497, \$45,343 and \$71,936)	172,638	319,405	342,033	580,804
Total costs and expenses	1,640,619	2,767,370	3,151,675	5,210,132
Income from operations	815,372	1,104,615	1,558,071	2,325,824
Interest income and other, net	160,805	137,130	228,724	267,859
Income before income taxes	976,177	1,241,745	1,786,795	2,593,683
Provision for income taxes	255,100	316,625	473,427	666,401
Net income	\$ 721,077	\$ 925,120	\$ 1,313,368	\$ 1,927,282
Net income per share of Class A and Class B common stock:				
Basic	\$ 2.39	\$ 2.98	\$ 4.41	\$ 6.22
Diluted	\$ 2.33	\$ 2.93	\$ 4.28	\$ 6.12

See accompanying notes.

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

(in thousands)

	Six Months Ended	
	2006	2007
	June 30, (unaudited)	
<b>Operating activities</b>		
Net income	\$ 1,313,368	\$ 1,927,282
Adjustments:		
Depreciation and amortization of property and equipment	206,079	358,426
Amortization of intangibles and other	31,300	69,921
In-process research and development	4,000	3,660
Stock-based compensation	223,813	425,390
Excess tax benefits from stock-based award activity	(258,087)	(179,815)
Other		(3,695)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(193,211)	(325,034)
Income taxes, net	265,384	333,407
Prepaid revenue share, expenses and other assets	(67,974)	(207,524)
Accounts payable	63,879	(74,662)
Accrued expenses and other liabilities	14,782	20,881
Accrued revenue share	56,984	82,152
Deferred revenue	5,073	19,130
Net cash provided by operating activities	1,665,390	2,449,519
<b>Investing activities</b>		
Purchases of property and equipment	(1,043,938)	(1,171,991)
Purchases of marketable securities	(17,576,067)	(7,343,870)
Maturities and sales of marketable securities	15,856,478	7,017,218
Investments in non-marketable equity securities	(1,004,222)	(10,288)
Acquisitions, net of cash acquired, and purchases of intangible and other assets	(188,506)	(207,540)
Net cash used in investing activities	(3,956,255)	(1,716,471)
<b>Financing activities</b>		
Net proceeds from stock-based award activity	97,088	28,824
Net proceeds from a public stock offering	2,063,777	
Excess tax benefits from stock-based award activity	258,087	179,815
Net cash provided by financing activities	2,418,952	208,639
Effect of exchange rate changes on cash and cash equivalents	10,661	7,294
Net increase in cash and cash equivalents	138,748	948,981
Cash and cash equivalents at beginning of year	3,877,174	3,544,671
Cash and cash equivalents at end of period	\$ 4,015,922	\$ 4,493,652

Edgar Filing: Google Inc. - Form 10-Q

**Supplemental disclosures of cash flow information**

Cash paid for interest	\$	185	\$	586
Cash paid for income taxes	\$	208,380	\$	333,874

See accompanying notes.



---

**Table of Contents**

**GOOGLE INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1. Google Inc. and Summary of 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 intranet solutions via an enterprise search appliance.

***Basis of Consolidation***

The Condensed 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 Condensed Consolidated Balance Sheet as of June 30, 2007, the Condensed Consolidated Statements of Income for the three and six months ended June 30, 2006 and 2007, and the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2006 and 2007 are unaudited. These unaudited interim Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles. In our opinion, the unaudited interim Condensed Consolidated Financial Statements include all adjustments of a normal recurring nature necessary for the fair presentation of our financial position as of June 30, 2007, our results of operations for the three and six months ended June 30, 2006 and 2007, and our cash flows for the six months ended June 30, 2006 and 2007. The results of operations for the three and six months ended June 30, 2007 are not necessarily indicative of the results to be expected for the year ending December 31, 2007.

These unaudited interim Condensed Consolidated Financial Statements should be read in conjunction with the consolidated financial statements and related notes included in our 2006 Annual Report on Form 10-K filed on March 1, 2007.

***Use of Estimates***

The preparation of interim Condensed Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States 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, fair values of marketable and non-marketable securities, fair values of intangible assets and goodwill, useful lives of intangible assets and property and equipment, fair values of options to purchase our common stock, traffic acquisition costs, and income taxes, 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. We engage third-party valuation consultants to assist management in the allocation of the purchase price of significant acquisitions.

***Effect of Recent Accounting Pronouncements***

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. This statement is effective for us beginning January 1, 2008. We are currently evaluating the impact of the adoption of SFAS No. 157 on our financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities- including an Amendment of FASB Statement No. 115*, which allows an entity to choose to measure certain financial instruments and liabilities at fair value. Subsequent measurements for the financial instruments and liabilities an entity elects to fair value will be recognized in earnings. SFAS No. 159

## Edgar Filing: Google Inc. - Form 10-Q

also establishes additional disclosure requirements. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted provided that the entity also adopts SFAS No. 157. We are currently evaluating whether to adopt SFAS No. 159 and, if adopted, the impact of such adoption.

**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 thousands, except per share amounts, unaudited):

	For the Three Months Ended				For the Six Months Ended			
	June 30,		June 30,		June 30,		June 30,	
	2006	2007	2006	2007	2006	2007	2006	2007
	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	\$ 513,639	\$ 207,438	\$ 687,241	\$ 237,879	\$ 923,344	\$ 390,024	\$ 1,427,701	\$ 499,581
Denominator:								
Weighted average common shares outstanding	216,102	87,343	231,290	79,974	210,975	89,226	230,338	80,508
Less: Weighted average unvested common shares subject to repurchase or cancellation	(1,401)	(634)	(677)	(151)	(1,714)	(834)	(786)	