

Google Inc.  
Form 10-Q  
August 07, 2008  
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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 June 30, 2008

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

**77-0493581**  
(I.R.S. Employer

incorporation or organization)

Identification Number)

**1600 Amphitheatre Parkway**

**Mountain View, CA 94043**

(Address of principal executive offices)

(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, 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. (Check one):

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 July 31, 2008, there were 239,109,856 shares of Google's Class A common stock and 75,336,583 shares of Google's Class B common stock outstanding.

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**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****GOOGLE INC.****CONSOLIDATED BALANCE SHEETS****(In thousands, except par value per share)**

	As of December 31, 2007	As of June 30, 2008 (unaudited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 6,081,593	\$ 7,363,536
Marketable securities	8,137,020	5,370,133
Accounts receivable, net of allowance of \$32,887 and \$67,326	2,162,521	2,641,901
Deferred income taxes, net	68,538	94,402
Income taxes receivable, net	145,253	
Prepaid revenue share, expenses and other assets	694,213	846,865
Total current assets	17,289,138	16,316,837
Prepaid revenue share, expenses and other assets, non-current	168,530	444,844
Deferred income taxes, net, non-current	33,219	220,079
Non-marketable equity securities	1,059,694	1,067,520
Property and equipment, net	4,039,261	5,137,710
Intangible assets, net	446,596	1,138,991
Goodwill	2,299,368	4,853,805
Total assets	\$ 25,335,806	\$ 29,179,786
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 282,106	\$ 439,281
Accrued compensation and benefits	588,390	493,284
Accrued expenses and other current liabilities	465,032	555,117
Accrued revenue share	522,001	517,287
Deferred revenue	178,073	197,433
Income taxes payable, net		143,113
Total current liabilities	2,035,602	2,345,515
Deferred revenue, non-current	30,249	30,933
Deferred income taxes, net, non-current		22,197
Income taxes payable, non-current	478,372	711,827
Other long-term liabilities	101,904	156,299
Commitments and contingencies		
Stockholders' equity:		
Convertible preferred stock, \$0.001 par value, 100,000 shares authorized; no shares issued and outstanding		
Class A and Class B common stock, \$0.001 par value: 9,000,000 shares authorized; 312,917 (Class A 236,097, Class B 76,820) and par value of \$313 (Class A \$236, Class B \$77) and 314,253 (Class A 238,889, Class B 75,364) and par value of \$314 (Class A \$239, Class B \$75) shares issued and outstanding, excluding 361 (Class	313	314

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A 336, Class B 25) and 101 (Class A 99, Class B 2) shares subject to repurchase at December 31, 2007 and June 30, 2008

Additional paid-in capital	13,241,221	13,904,271
Accumulated other comprehensive income	113,373	119,181
Retained earnings	9,334,772	11,889,249

Total stockholders' equity	22,689,679	25,913,015
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Total liabilities and stockholders' equity	\$ 25,335,806	\$ 29,179,786
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See accompanying notes.

**Table of Contents****GOOGLE INC.****CONSOLIDATED STATEMENTS OF INCOME****(In thousands, except per share amounts)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>
	<b>(unaudited)</b>			
Revenues	\$ 3,871,985	\$ 5,367,212	\$ 7,535,956	\$ 10,553,255
Costs and expenses:				
Cost of revenues (including stock-based compensation expense of \$7,659, \$9,363, \$12,048 and \$18,511)	1,560,255	2,147,575	3,030,682	4,258,111
Research and development (including stock-based compensation expense of \$156,983, \$187,281, \$277,771 and \$381,081)	532,106	682,210	940,490	1,355,279
Sales and marketing (including stock-based compensation expense of \$36,385, \$42,593, \$63,635 and \$85,169)	355,604	484,552	658,156	931,450
General and administrative (including stock-based compensation expense of \$40,497, \$33,539, \$71,936 and \$68,794)	319,405	474,910	580,804	884,215
Total costs and expenses	2,767,370	3,789,247	5,210,132	7,429,055
Income from operations	1,104,615	1,577,965	2,325,824	3,124,200
Interest income and other, net	137,130	57,923	267,859	225,266
Income before income taxes	1,241,745	1,635,888	2,593,683	3,349,466
Provision for income taxes	316,625	388,497	666,401	794,989
Net income	\$ 925,120	\$ 1,247,391	\$ 1,927,282	\$ 2,554,477
Net income per share of Class A and Class B common stock:				
Basic	\$ 2.98	\$ 3.97	\$ 6.22	\$ 8.15
Diluted	\$ 2.93	\$ 3.92	\$ 6.12	\$ 8.04

See accompanying notes.

**Table of Contents****GOOGLE INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)**

	<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2008</b>
	<b>(unaudited)</b>	
<b>Operating activities</b>		
Net income	\$ 1,927,282	\$ 2,554,477
Adjustments:		
Depreciation and amortization of property and equipment	358,426	589,280
Amortization of intangibles and other	69,921	138,851
Stock-based compensation	425,390	553,555
Excess tax benefits from stock-based award activity	(179,815)	(94,979)
Deferred income taxes	(182,441)	(105,890)
Other, net	(35)	(24,658)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(325,034)	(296,376)
Income taxes, net	515,848	528,359
Prepaid revenue share, expenses and other assets	(207,524)	(182,803)
Accounts payable	(74,662)	39,237
Accrued expenses and other liabilities	20,881	(147,251)
Accrued revenue share	82,152	(16,450)
Deferred revenue	19,130	10,248
Net cash provided by operating activities	2,449,519	3,545,600
<b>Investing activities</b>		
Purchases of property and equipment	(1,171,991)	(1,539,114)
Purchases of marketable securities	(7,343,870)	(4,921,310)
Maturities and sales of marketable securities	7,017,218	7,416,559
Investments in non-marketable equity securities	(10,288)	(9,492)
Acquisitions, net of cash acquired, and purchases of intangible and other assets	(207,540)	(3,312,270)
Net cash used in investing activities	(1,716,471)	(2,365,627)
<b>Financing activities</b>		
Net proceeds (payments) related to stock-based award activity	28,824	(22,746)
Excess tax benefits from stock-based award activity	179,815	94,979
Net cash provided by financing activities	208,639	72,233
Effect of exchange rate changes on cash and cash equivalents	7,294	29,737
Net increase in cash and cash equivalents	948,981	1,281,943
Cash and cash equivalents at beginning of year	3,544,671	6,081,593
Cash and cash equivalents at end of period	\$ 4,493,652	\$ 7,363,536

**Supplemental disclosures of cash flow information**

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Cash paid for interest	\$	586	\$	947
Cash paid for income taxes	\$	333,874	\$	378,550

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 provide highly targeted advertising and global internet search solutions as well as intranet solutions via an enterprise search appliance.

***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 June 30, 2008, the Consolidated Statements of Income for the three and six months ended June 30, 2007 and 2008, and the Consolidated Statements of Cash Flows for the six months ended June 30, 2007 and 2008 are unaudited. These unaudited interim Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles. 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 June 30, 2008, our results of operations for the three and six months ended June 30, 2007 and 2008, and our cash flows for the six months ended June 30, 2007 and 2008. The results of operations for the three and six months ended June 30, 2008 are not necessarily indicative of the results to be expected for the year ending December 31, 2008.

These unaudited interim Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and related notes included in our 2007 Annual Report on Form 10-K filed on February 15, 2008.

***Use of Estimates***

The preparation of interim 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 accounts receivable, bad debt and sales allowances, fair values of marketable and non-marketable securities, fair values of prepaid revenue share, intangible assets and goodwill, useful lives of intangible assets and property and equipment, fair values of options to purchase our common stock, 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.

***Effect of Recent Accounting Pronouncements***

In December 2007, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 141 (revised 2007), *Business Combinations* ( SFAS 141R ). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. This statement is effective for us beginning January 1, 2009. We are currently evaluating the potential impact of the adoption of SFAS 141R on our consolidated financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of Accounting Research Bulletin No. 51* ( SFAS 160 ). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and

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the interests of the noncontrolling owners. This statement is effective for us beginning January 1, 2009. We are currently evaluating the potential impact of the adoption of SFAS 160 on our consolidated financial position, results of operations and cash flows.

In February 2008, the FASB issued Financial Staff Positions ( FSP ) SFAS 157-2, *Effective Date of FASB Statement No. 157* ( FSP 157-2 ), which delays the effective date of SFAS No. 157, *Fair Value Measurement* ( SFAS 157 ), for all

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nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements. FSP 157-2 partially defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. FSP 157-2 is effective for us beginning January 1, 2009. We are currently evaluating the potential impact of the adoption of those provisions of SFAS 157, for which effectiveness was delayed by FSP 157-2, on our consolidated financial position and results of operations.

In April 2008, the FASB issued FSP SFAS 142-3, *Determination of the Useful Life of Intangible Assets* ( FSP 142-3 ). This guidance is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* ( SFAS 142 ), and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R when the underlying arrangement includes renewal or extension of terms that would require substantial costs or result in a material modification to the asset upon renewal or extension. Companies estimating the useful life of a recognized intangible asset must now consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, must consider assumptions that market participants would use about renewal or extension as adjusted for SFAS 142's entity-specific factors. FSP 142-3 is effective for us beginning January 1, 2009. We are currently evaluating the potential impact of the adoption of FSP 142-3 on our consolidated financial position, results of operations and cash flows.

**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 June 30,				For the Six Months Ended June 30,			
	2007		2008		2007		2008	
	Class A	Class B	Class A	Class B (unaudited)	Class A	Class B	Class A	Class B
Basic net income per share:								
Numerator:								
Allocation of undistributed earnings	\$ 687,241	\$ 237,879	\$ 947,389	\$ 300,002	\$ 1,427,701	\$ 499,581	\$ 1,935,792	\$ 618,685
Denominator:								
Weighted average common shares outstanding	231,290	79,974	238,481	75,481	230,338	80,508	237,748	