

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, 2011	As of June 30, 2012 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,983	\$ 15,437
Marketable securities	34,643	27,685
Total cash, cash equivalents, and marketable securities (including securities loaned of \$2,678 and \$2,789)	44,626	43,122
Accounts receivable, net of allowance of \$133 and \$187	5,427	6,866
Inventories	35	634
Receivable under reverse repurchase agreements	745	475
Deferred income taxes, net	215	146
Prepaid revenue share, expenses and other assets	1,710	2,614
Total current assets	52,758	53,857
Prepaid revenue share, expenses and other assets, non-current	499	2,263
Non-marketable equity securities	790	1,040
Property and equipment, net	9,603	10,909
Intangible assets	1,578	7,862
Goodwill	7,346	10,120
Total assets	\$ 72,574	\$ 86,051
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 588	\$ 2,419
Short-term debt	1,218	3,218
Accrued compensation and benefits	1,818	1,626
Accrued expenses and other current liabilities	1,370	2,750
Accrued revenue share	1,168	1,175
Securities lending payable	2,017	1,916
Deferred revenue	547	767
Income taxes payable, net	197	157
Total current liabilities	8,913	14,028
Long-term debt	2,986	2,987
Deferred revenue, non-current	44	97
Income taxes payable, non-current	1,693	1,898
Deferred income taxes, net, non-current	287	1,509
Other long-term liabilities	506	811
Stockholders' equity:		
Convertible preferred stock, \$0.001 par value per share, 100,000 shares authorized; no shares issued and outstanding	—	0
Class A and Class B common stock and additional paid-in capital, \$0.001 par value per share: 9,000,000 shares authorized (Class A 6,000,000, Class B 3,000,000) and 12,000,000 shares authorized (Class A 9,000,000, Class B 3,000,000); 324,895 (Class A 257,553, Class B 67,342) and par value of \$325 (Class A 258, Class B \$67) and 326,944 (Class A 261,584, Class B 65,360) and par value of \$327 (Class A \$262, Class B \$65) shares issued and outstanding	20,264	21,357
Class C capital stock, \$0.001 par value per share: 3,000,000 shares authorized; no shares issued and outstanding	0	0
Accumulated other comprehensive income	276	84
Retained earnings	37,605	43,280
Total stockholders' equity	58,145	64,721
Total liabilities and stockholders' equity	\$ 72,574	\$ 86,051

See accompanying notes.

Google Inc.

CONSOLIDATED STATEMENTS OF INCOME
(In millions, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2012	2011	2012
	(unaudited)			
Revenues:				
Google (advertising and other)	\$9,026	\$10,964	\$17,602	\$21,609
Motorola (hardware and other)	0	1,250	0	1,250
Costs and expenses:				
Cost of revenues – Google (advertising and other) ⁽¹⁾	3,172	3,984	6,107	7,773
Cost of revenues – Motorola (hardware and other) ⁽¹⁾	0	1,029	0	1,029
Research and development ⁽¹⁾	1,234	1,585	2,456	3,026
Sales and marketing ⁽¹⁾	1,091	1,433	2,117	2,702
General and administrative ⁽¹⁾	648	980	1,244	1,737
Charge related to the resolution of Department of Justice investigation	0	0	500	0
Total costs and expenses	6,145	9,011	12,424	16,267
Income from operations	2,881	3,203	5,178	6,592
Interest and other income, net	204	254	300	410
Income before income taxes	3,085	3,457	5,478	7,002
Provision for income taxes	580	672	1,174	1,327
Net income	<u>\$2,505</u>	<u>\$ 2,785</u>	<u>\$ 4,304</u>	<u>\$ 5,675</u>
Net income per share of Class A and Class B common stock:				
Basic	<u>\$ 7.77</u>	<u>\$ 8.54</u>	<u>\$ 13.37</u>	<u>\$ 17.42</u>
Diluted	<u>\$ 7.68</u>	<u>\$ 8.42</u>	<u>\$ 13.19</u>	<u>\$ 17.17</u>
 ⁽¹⁾ Includes stock-based compensation expense as follows:				
Cost of revenues – Google (advertising and other)	\$ 51	\$ 82	\$ 100	\$ 156
Cost of revenues – Motorola (hardware and other)	0	5	0	5
Research and development	247	291	484	590
Sales and marketing	74	120	152	217
General and administrative	63	160	130	246

See accompanying notes.

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 revenues primarily by delivering relevant, cost-effective online advertising in our Google segment. In addition, as a result of our acquisition of Motorola Mobility Holdings, Inc. (Motorola) on May 22, 2012, we generate revenues from sales of mobile devices in our Motorola Mobile (Mobile) segment and digital set-top boxes in our Motorola Home (Home) segment. See Notes 8 and 14 for further discussion of the acquisition and our segment information.

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, 2012, the Consolidated Statements of Income for the three and six months ended June 30, 2011 and 2012, the Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2011 and 2012, and the Consolidated Statements of Cash Flows for the six months ended June 30, 2011 and 2012 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 June 30, 2012, our results of operations for the three and six months ended June 30, 2011 and 2012, and our cash flows for the six months ended June 30, 2011 and 2012. The results of operations for the three and six months ended June 30, 2012 are not necessarily indicative of the results to be expected for the year ending December 31, 2012.

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, 2011 filed with the SEC on January 26, 2012.

Prior period balance related to inventories has been reclassified to conform to the current and Prior year presentation.

Use of Estimates

The preparation of 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, inventory valuation, 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.

Revenue Recognition

The following table presents our revenues by revenue source (in millions, unaudited):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2012	2011	2012
Google:				
Advertising revenues:				
Google websites	\$6,232	\$ 7,542	\$ 12,110	\$14,854
Google Network Members' websites	<u>2,484</u>	<u>2,983</u>	<u>4,911</u>	<u>5,896</u>
Total advertising revenues	8,716	10,525	17,022	20,750
Other revenues	<u>310</u>	<u>439</u>	<u>580</u>	<u>859</u>
Total Google revenues (advertising and other)	9,026	10,964	17,602	21,609
Motorola:				
Total Motorola revenues (hardware and other)	<u>0</u>	<u>1,250</u>	<u>0</u>	<u>1,250</u>
Total revenues	<u>\$9,026</u>	<u>\$12,214</u>	<u>\$17,602</u>	<u>\$22,859</u>

We recognize revenues when the services or goods have been provided or delivered, the fees we charge are fixed or determinable, we and our advertisers or other customers understand the specific nature and terms of the agreed upon transactions, and collectability is reasonably assured.

Google

Google AdWords is our auction-based advertising program that enables advertisers to place text-based and display on our websites and our Google Network Members' websites. Display advertising comprises the videos, text, images, and other interactive ads that run across the web on computers and mobile devices, including smart phones and handheld computers such as netbooks and tablets. Most of our AdWords customers pay us on a cost-per-click basis, which means that an advertiser pays us only when a user clicks on one of its ads. We also offer AdWords on a cost-per-impression basis that enables advertisers to pay us based on the number of times their ads appear on our websites and our Google Network Members' websites as specified by the advertisers.

Google AdSense refers to the online programs through which we distribute our advertisers' AdWords ads for display on our Google Network Members' websites, as well as programs to deliver ads on television broadcasts.

We recognize as revenues the fees charged to advertisers each time a user clicks on one of the ads that appears next to the search results or content on our websites or our Google Network Members' websites. For those advertisers using our AdWords cost-per-impression pricing, we recognize as revenues the fees charged to advertisers each time their ads are displayed on our websites or our Google Network Members' websites. We report our Google AdSense revenues on a gross basis principally because we are the primary obligor to our advertisers.

We record deferred revenue upon invoicing or when cash payments are received in advance of our performance in the underlying agreement in the accompanying Consolidated Balance Sheets.