

**Google Inc.**  
**CONSOLIDATED BALANCE SHEETS**  
(In millions)

	As of December 31, 2010*	As of September 30, 2011
		(unaudited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$13,630	\$10,630
Marketable securities	21,345	31,930
Accounts receivable, net of allowance	4,252	4,583
Receivable under reverse repurchase agreements	750	1,145
Deferred income taxes, net	259	215
Income taxes receivable, net	-	133
Prepaid revenue share, expenses and other assets	1,326	1,406
Total current assets	41,562	50,042
Prepaid revenue share, expenses and other assets, non-current	442	488
Deferred income taxes, net, non-current	265	-
Non-marketable equity securities	523	891
Property and equipment, net	7,759	9,204
Intangible assets, net	1,044	1,474
Goodwill	6,256	6,989
Total assets	\$57,851	\$69,088

**Liabilities and Stockholders' Equity**

Current liabilities:

Accounts payable	\$483	\$563
Short-term debt	3,465	1,218
Accrued compensation and benefits	1,410	1,446

Accrued expenses and other current liabilities	961	1,155
Accrued revenue share	885	962
Securities lending payable	2,361	3,055
Deferred revenue	394	489
Income taxes payable, net	37	-
Total current liabilities	9,996	8,888
Long-term debt	-	2,986
Deferred revenue, non-current	35	31
Income taxes payable, non-current	1,200	1,594
Deferred income taxes, net, non-current	-	263
Other long-term liabilities	379	496
Stockholders' equity:		
Common stock and additional paid-in capital	18,235	19,697
Accumulated other comprehensive income	138	232
Retained earnings	27,868	34,901
Total stockholders' equity	46,241	54,830
Total liabilities and stockholders' equity	\$57,851	\$69,088

\* Derived from audited financial statements.

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**Google Inc.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(In millions, except share amounts which are reflected in thousands and per share amounts)

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>
	(unaudited)			
Revenues	\$7,286	\$9,720	\$20,881	\$27,322
Costs and expenses:				
Cost of revenues (including stock-based	2,552	3,378	7,471	9,485

compensation expense of \$8, \$72, \$22, \$172)				
Research and development (including stock-based compensation expense of \$244, \$311, \$637, \$795)	994	1,404	2,711	3,861
Sales and marketing (including stock-based compensation expense of \$75, \$104, \$185, \$256)	661	1,204	1,897	3,322
General and administrative (including stock-based compensation expense of \$53, \$84, \$136, \$214)	532	676	1,403	1,919
Charge related to the resolution of Department of Justice investigation	-	-	-	500
Total costs and expenses	<u>4,739</u>	<u>6,662</u>	<u>13,482</u>	<u>19,087</u>
Income from operations	2,547	3,058	7,399	8,235
Interest and other income, net	<u>167</u>	<u>302</u>	<u>255</u>	<u>602</u>
Income before income taxes	2,714	3,360	7,654	8,837
Provision for income taxes	<u>547</u>	<u>631</u>	<u>1,692</u>	<u>1,804</u>
Net income	<u>\$2,167</u>	<u>\$2,729</u>	<u>\$5,962</u>	<u>\$7,033</u>
Net income per share - basic	<u>\$6.80</u>	<u>\$8.44</u>	<u>\$18.73</u>	<u>\$21.82</u>
Net income per share - diluted	<u>\$6.72</u>	<u>\$8.33</u>	<u>\$18.49</u>	<u>\$21.53</u>
Shares used in per share calculation - basic	<u>318,617</u>	<u>323,155</u>	<u>318,287</u>	<u>322,304</u>
Shares used in per share calculation - diluted	<u>322,377</u>	<u>327,439</u>	<u>322,490</u>	<u>326,619</u>

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

<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>
(unaudited)			

**Operating activities**

Net income	\$2,167	\$2,729	\$5,962	\$7,033
Adjustments:				
Depreciation and amortization of property and equipment	257	363	787	1,011
Amortization of intangible and other assets	85	129	228	337
Stock-based compensation expense	380	571	980	1,437
Excess tax benefits from stock-based award activities	(12)	(28)	(43)	(61)
Deferred income taxes	27	62	23	526
Other	(9)	(52)	(7)	3
Changes in assets and liabilities, net of effects of acquisitions:				
Accounts receivable	(259)	(223)	(456)	(247)
Income taxes, net	(131)	366	(295)	268
Prepaid revenue share, expenses and other assets	(164)	2	(355)	(146)
Accounts payable	115	(5)	314	72
Accrued expenses and other liabilities	391	(42)	316	255
Accrued revenue share	35	64	69	70
Deferred revenue	4	14	32	83
<b>Net cash provided by operating activities</b>	<b>2,886</b>	<b>3,950</b>	<b>7,555</b>	<b>10,641</b>
<b>Investing activities</b>				
Purchases of property and equipment	(757)	(680)	(1,473)	(2,487)
Purchases of marketable securities	(12,168)	(22,738)	(37,589)	(43,693)
Maturities and sales of marketable securities	9,739	19,480	30,369	33,107
Investments in non-marketable equity securities	(35)	(15)	(265)	(358)
Cash collateral received (returned) related to securities lending	(9)	1,119	2,861	695
Investments in reverse repurchase agreements	(875)	(125)	(875)	(395)
Acquisitions, net of cash acquired, and purchases of intangible and other assets	(441)	(488)	(859)	(1,351)
<b>Net cash used in investing activities</b>	<b>(4,546)</b>	<b>(3,447)</b>	<b>(7,831)</b>	<b>(14,482)</b>

## Financing activities

Net payments related to stock-based award activities	(66)	(108)	(65)	(20)
Excess tax benefits from stock-based award activities	12	28	43	61
Repurchase of common stock in connection with acquisitions	-	-	(801)	-
Proceeds from issuance of debt, net of costs	2,121	750	2,121	8,780
Repayments of debt	-	(750)	-	(8,054)
<b>Net cash provided by (used in) financing activities</b>	<b>2,067</b>	<b>(80)</b>	<b>1,298</b>	<b>767</b>
Effect of exchange rate changes on cash and cash equivalents	137	(113)	37	74
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>544</b>	<b>310</b>	<b>1,059</b>	<b>(3,000)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>10,713</b>	<b>10,320</b>	<b>10,198</b>	<b>13,630</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$11,257</b>	<b>\$10,630</b>	<b>\$11,257</b>	<b>\$10,630</b>

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## Reconciliations of non-GAAP results of operations measures to the nearest comparable GAAP measures

The following table presents certain non-GAAP results before certain material items (in millions, except share amounts which are reflected in thousands and per share amounts, unaudited):

	Three Months Ended September 30, 2010					Three Mo	
	GAAP Actual	Operating Margin (a)	Adjustments	Non-GAAP Results	Non-GAAP Operating Margin (b)	GAAP Actual	Operat Margin
			\$380 (c)				
Income from operations	\$2,547	35.0%	\$380	\$2,927	40.2%	\$3,058	31.0%
			\$380 (c)				

Net income	<u>\$2,167</u>	<u>\$295</u>	<u>\$2,462</u>	<u>\$2,729</u>
Net income per share - diluted	<u>\$6.72</u>		<u>\$7.64</u>	<u>\$8.33</u>
Shares used in per share calculation - diluted	<u>322,377</u>		<u>322,377</u>	<u>327,439</u>

(a) Operating margin is defined as income from operations divided by revenues.

(b) Non-GAAP operating margin is defined as non-GAAP income from operations divided by revenues.

(c) To eliminate \$380 million of stock-based compensation expense recorded in the third quarter of 2010.

(d) To eliminate \$571 million of stock-based compensation expense recorded in the third quarter of 2011.

(e) To eliminate income tax effects related to expenses noted in (c) and (d).

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**Reconciliation from net cash provided by operating activities to free cash flow (in millions, unaudited):**

	<u>Three Months Ended September 30, 2011</u>
<b>Net cash provided by operating activities</b>	\$3,950
Less purchases of property and equipment	<u>(680)</u>
<b>Free cash flow</b>	<u>\$3,270</u>
<b>Net cash used in investing activities*</b>	<u>\$(3,447)</u>
<b>Net cash used in financing activities</b>	<u>\$(80)</u>

\* Includes purchases of property and equipment.

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**Reconciliation from GAAP international revenues to non-GAAP international revenues (in millions, unaudited):**

	<u>Three Months Ended September 30, 2011</u>	<u>Three Months Ended September 30, 2011</u>
	<i>(using Q3'10's FX rates)</i>	<i>(using Q2'11's FX rates)</i>
<b>United Kingdom revenues (GAAP)</b>	\$1,047	\$1,047

Exclude foreign exchange impact on Q3'11 revenues using Q3'10 rates	(56)	-
Exclude foreign exchange impact on Q3'11 revenues using Q2'11 rates	-	1
Exclude hedging gains recognized in Q3'11	-	-
<b>United Kingdom revenues excluding foreign exchange and hedging impact (Non-GAAP)</b>	<b>\$991</b>	<b>\$1,048</b>
<b>Rest of the world revenues (GAAP)</b>	<b>\$4,253</b>	<b>\$4,253</b>
Exclude foreign exchange impact on Q3'11 revenues using Q3'10 rates	(427)	-
Exclude foreign exchange impact on Q3'11 revenues using Q2'11 rates	-	(54)
Exclude hedging gains recognized in Q3'11	(1)	(1)
<b>Rest of the world revenues excluding foreign exchange and hedging impact (Non-GAAP)</b>	<b>\$3,825</b>	<b>\$4,198</b>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2011	2010	2011
Advertising revenues:				
Google websites	\$4,833	\$6,740	\$13,772	\$18,851
Google Network Members' websites	2,199	2,595	6,297	7,506
Total advertising revenues	7,032	9,335	20,069	26,357
Other revenues	254	385	812	965
Revenues	<u>\$7,286</u>	<u>\$9,720</u>	<u>\$20,881</u>	<u>\$27,322</u>

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The following table presents our revenues, by revenue source, as a percentage of total revenues (unaudited):

	Three Months Ended September 30,	Nine Months Ended September 30,
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	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>
Advertising revenues:				
Google websites	67%	69%	66%	69%
Google Network Members' websites	30%	27%	30%	27%
Total advertising revenues	97%	96%	96%	96%
Other revenues	3%	4%	4%	4%
Revenues	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

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