

## Google Inc. Announces Second Quarter 2014 Results and Management Change

MOUNTAIN VIEW, Calif. – July 17, 2014 - Google Inc. (NASDAQ: GOOG, GOOGL) today announced financial results for the quarter ended June 30, 2014.

"Google had a great quarter with revenue up 22% year on year, at \$16.0 billion," said Patrick Pichette, CFO of Google. "We are moving forward with great product momentum and are excited to continue providing amazing user experiences, with a view to the long term."

### Q2 Financial Summary

On January 29, 2014, we entered into an agreement with Lenovo Group Limited providing for the disposition of the Motorola Mobile business. Financial results of Motorola Mobile are presented as "Net income (loss) from discontinued operations" on the Consolidated Statements of Income for the quarter ended June 30, 2013 and 2014; and assets and liabilities of Motorola Mobile to be disposed of are presented as "Assets held for sale" and "Liabilities held for sale", respectively, on the Consolidated Balance Sheet as of June 30, 2014.

On April 2, 2014, we issued shares of Class C capital stock as a dividend to our stockholders. Except for the number of authorized shares and par value, all references to share and per share amounts have been retroactively restated for all prior periods shown to reflect the stock split, which was effected in the form of a stock dividend.

Google Inc. reported consolidated revenues of \$15.96 billion for the quarter ended June 30, 2014, an increase of 22% compared to the second quarter of 2013. Google Inc. reports advertising revenues, consistent with GAAP, on a gross basis without deducting traffic acquisition costs (TAC). In the second quarter of 2014, TAC totaled \$3.29 billion, or 23% of advertising revenues.

Operating income, operating margin, net income, and earnings per share (EPS) are reported on a GAAP and non-GAAP basis. The non-GAAP measures, as well as free cash flow, an alternative non-GAAP measure of liquidity, are described below and are reconciled to the corresponding GAAP measures at the end of this release.

- GAAP operating income in the second quarter of 2014 was \$4.26 billion, or 27% of revenues. This compares to GAAP operating income of \$3.47 billion, or 26% of revenues, in the second quarter of 2013. Non-GAAP operating income in the second quarter of 2014 was \$5.14 billion, or 32% of revenues. This compares to non-GAAP operating income of \$4.21 billion, or 32% of revenues, in the second quarter of 2013.
- GAAP net income (including net income (loss) from discontinued operations) in the second quarter of 2014 was \$3.42 billion, compared to \$3.23 billion in the second quarter of 2013. Non-GAAP net income in the second quarter of 2014 was \$4.18 billion, compared to \$3.36 billion in the second quarter of 2013.
- GAAP EPS (including impact from net income (loss) from discontinued operations) in the second quarter of 2014 was \$4.99 on 686 million diluted shares outstanding, compared to \$4.77 in the second quarter of 2013 on 677 million diluted shares outstanding. Non-GAAP EPS in the second quarter of 2014 was \$6.08, compared to \$4.96 in the second quarter of 2013.
- Non-GAAP operating income and non-GAAP operating margin exclude stock-based compensation (SBC) expense. Non-GAAP net income and non-GAAP EPS exclude SBC expense, net of the related tax benefit, as well as net income (loss) from discontinued operations. In the second quarter of 2014, the expense related to SBC and the related tax benefits were \$880 million and \$195 million compared to \$743 million and \$160 million in the second quarter of 2013. In addition, net loss from discontinued operations in the second quarter of 2014 was \$68 million, compared to net income of \$454 million in the second quarter of 2013.

### Q2 Financial Highlights

**Revenues and other information** - Google Inc. revenues for the quarter ended June 30, 2014 were \$15.96 billion, representing a 22% increase over second quarter of 2013 revenues of \$13.11 billion.

- Sites Revenues** - Our sites generated revenues of \$10.94 billion, or 69% of total revenues, in the second quarter of 2014. This represents a 23% increase over second quarter of 2013 sites revenues of \$8.87 billion.

- **Network Revenues** - Our partner sites generated revenues of \$3.42 billion, or 21% of total revenues, in the second quarter of 2014. This represents a 7% increase over second quarter of 2013 network revenues of \$3.19 billion.
- **Other Revenues** - Other revenues were \$1.60 billion, or 10% of total revenues, in the second quarter of 2014. This represents a 53% increase over second quarter of 2013 other revenues of \$1.05 billion.

**International Revenues** - Our revenues from outside of the United States totaled \$9.33 billion, representing 58% of total revenues in the second quarter of 2014, compared to 57% in the first quarter of 2014 and 55% in the second quarter of 2013.

- Our revenues from the United Kingdom totaled \$1.62 billion, representing 10% of total revenues in the second quarter of 2014, compared to 10% in the second quarter of 2013.

**Foreign Exchange Impact on Revenues** - Excluding gains related to our foreign exchange risk management program, had foreign exchange rates remained constant from the first quarter of 2014 through the second quarter of 2014, our revenues in the second quarter of 2014 would have been \$77 million lower. Excluding gains related to our foreign exchange risk management program, had foreign exchange rates remained constant from the second quarter of 2013 through the second quarter of 2014, our revenues in the second quarter of 2014 would have been \$120 million lower.

- In the second quarter of 2014, we recognized a benefit of \$6 million to revenues through our foreign exchange risk management program, compared to \$35 million in the second quarter of 2013.

Reconciliations of our non-GAAP international revenues excluding the impact of foreign exchange and hedging to GAAP international revenues are included at the end of this release.

**Paid Clicks** - Aggregate paid clicks, which include clicks related to ads served on Google sites and the sites of our Network members, increased approximately 25% over the second quarter of 2013 and increased approximately 2% over the first quarter of 2014. Sites paid clicks, which include clicks related to ads we serve on Google owned and operated properties across different geographies and form factors including search, YouTube engagement ads like TrueView, and other owned and operated properties like Maps and Finance, increased approximately 33% over the second quarter of 2013 and increased approximately 6% over the first quarter of 2014. Network paid clicks, which include clicks related to ads served on non-Google properties participating in our AdSense for Search, AdSense for Content, and AdMob businesses, increased approximately 9% over the second quarter of 2013 and decreased approximately 5% over the first quarter of 2014.

**Cost-Per-Click** - Average cost-per-click, which includes clicks related to ads served on Google sites and the sites of our Network members, decreased approximately 6% over the second quarter of 2013 and remained constant from the first quarter of 2014. Cost-per-click for Google sites decreased approximately 7% over the second quarter of 2013 and decreased approximately 2% over the first quarter of 2014. Network cost-per-click decreased approximately 13% over the second quarter of 2013 and increased approximately 3% over the first quarter of 2014.

**TAC** - Traffic acquisition costs, the portion of revenues shared with Google's partners, increased to \$3.29 billion in the second quarter of 2014, compared to \$3.01 billion in the second quarter of 2013. TAC as a percentage of advertising revenues was 23% in the second quarter of 2014, compared to 25% in the second quarter of 2013.

The majority of TAC is related to amounts ultimately paid to our Network members, which totaled \$2.40 billion in the second quarter of 2014. TAC also includes amounts ultimately paid to certain distribution partners and others who direct traffic to our website, which totaled \$893 million in the second quarter of 2014.

**Other Cost of Revenues** - Other cost of revenues, which is comprised primarily of data centers operational expenses, hardware inventory costs, amortization of acquisition-related intangible assets, and content acquisition costs, increased to \$2.82 billion, or 18% of revenues, in the second quarter of 2014, compared to \$2.18 billion, or 17% of revenues, in the second quarter of 2013.

**Operating Expenses** - Operating expenses, other than cost of revenues, were \$5.58 billion in the second quarter of 2014, or 35% of revenues, compared to \$4.45 billion in the second quarter of 2013, or 34% of revenues.

**Depreciation and loss on disposal of property and equipment and amortization expenses** - Depreciation and loss on disposal of property and equipment and amortization expenses were \$1.08 billion for the second quarter of 2014, of which \$1.07 billion

was related to Google, compared to \$1.03 billion in the second quarter of 2013. Of the \$1.07 billion, \$116 million was related to amortization of Motorola intangibles, which Google will retain subsequent to the disposal of Motorola Mobile.

**Stock-Based Compensation (SBC)** - In the second quarter of 2014, the total charge related to SBC was \$880 million compared to \$743 million in the second quarter of 2013. We currently estimate SBC charges for grants made to employees prior to June 30, 2014 to be approximately \$3.42 billion for 2014. This estimate does not include expenses to be recognized related to employee stock awards that are granted after June 30, 2014 or non-employee stock awards that have been or may be granted.

**Operating Income** - GAAP operating income in the second quarter of 2014 was \$4.26 billion, or 27% of revenues. This compares to GAAP operating income of \$3.47 billion, or 26% of revenues, in the second quarter of 2013. Non-GAAP operating income in the second quarter of 2014 was \$5.14 billion, or 32% of revenues. This compares to non-GAAP operating income of \$4.21 billion, or 32% of revenues, in the second quarter of 2013.

**Interest and Other Income, Net** - Interest and other income, net, was \$145 million in the second quarter of 2014, compared to \$236 million in the second quarter of 2013.

**Income Taxes** - Our effective tax rate was 21% for the second quarter of 2014.

**Net Income (Loss) from Discontinued Operations** - Net loss from discontinued operations in the second quarter of 2014 was \$68 million, compared to net income of \$454 million in the second quarter of 2013. Net loss from discontinued operations in the second quarter of 2014 included a pre-tax adjustment of \$72 million related to the release of the deferral of certain revenue for the Motorola Mobile segment. Had we presented Motorola Mobile as an operating segment, the Motorola Mobile segment revenue for the second quarter of 2014 would have been \$1.73 billion, \$72 million lower than what was included in net loss from discontinued operations.

**Net Income** - GAAP consolidated net income in the second quarter of 2014 was \$3.42 billion, compared to \$3.23 billion in the second quarter of 2013. Non-GAAP consolidated net income was \$4.18 billion in the second quarter of 2014, compared to \$3.36 billion in the second quarter of 2013. GAAP EPS in the second quarter of 2014 was \$4.99 on 686 million diluted shares outstanding, compared to \$4.77 in the second quarter of 2013 on 677 million diluted shares outstanding. Non-GAAP EPS in the second quarter of 2014 was \$6.08, compared to \$4.96 in the second quarter of 2013.

**Cash Flow and Capital Expenditures** - Net cash provided by operating activities in the second quarter of 2014 totaled \$5.63 billion, compared to \$4.71 billion in the second quarter of 2013. In the second quarter of 2014, capital expenditures were \$2.65 billion, the majority of which was for data-center construction, real estate purchases, and production equipment. Free cash flow, an alternative non-GAAP measure of liquidity, is defined as net cash provided by operating activities less capital expenditures. In the second quarter of 2014, free cash flow was \$2.98 billion.

We expect to continue to make significant capital expenditures.

A reconciliation of free cash flow to net cash provided by operating activities, the GAAP measure of liquidity, is included at the end of this release.

**Cash** - As of June 30, 2014, cash, cash equivalents, and marketable securities were \$61.20 billion, which excludes cash classified as held for sale, compared to \$58.72 billion as of December 31, 2013.

**Headcount** - On a worldwide basis, we employed 52,069 full-time employees (48,584 in Google and 3,485 in Motorola Mobile) as of June 30, 2014, compared to 49,829 full-time employees (46,170 in Google and 3,659 in Motorola Mobile) as of March 31, 2014.

### **Management Change**

Nikesh Arora, our Chief Business Officer, will be leaving Google after almost ten years at the company to join one of our partners, SoftBank, as Vice Chairman of SoftBank Corp. and CEO of SoftBank Internet and Media. He will join this afternoon's earnings call as usual. Omid Kordestani, who was our business founder and led our sales teams for many years, will be stepping in to lead our business organization for now.

## WEBCAST AND CONFERENCE CALL INFORMATION

A live audio webcast of Google's second quarter 2014 earnings release call will be available at <http://investor.google.com/webcast.html>. The call begins today at 1:30 PM (PT) / 4:30 PM (ET). This press release, the financial tables, as well as other supplemental information including the reconciliations of certain non-GAAP measures to their nearest comparable GAAP measures, are also available on that site.

We also announce investor information, including news and commentary about our business and financial performance, SEC filings, notices of investor events and our press and earnings releases, on our investor relations website (<http://investor.google.com>) and our investor relations Google+ page (<https://plus.google.com/+GoogleInvestorRelations/posts>).

## FORWARD-LOOKING STATEMENTS

This press release contains forward-looking statements that involve risks and uncertainties. These statements include statements regarding our investments in areas of strategic focus, our expected SBC charges, and our plans to make significant capital expenditures. Actual results may differ materially from the results predicted, and reported results should not be considered as an indication of future performance. The potential risks and uncertainties that could cause actual results to differ from the results predicted include, among others, unforeseen changes in our hiring patterns and our need to expend capital to accommodate the growth of the business, as well as those risks and uncertainties included under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2013 and our most recent Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 which are on file with the SEC and are available on our investor relations website at [investor.google.com](http://investor.google.com) and on the SEC website at [www.sec.gov](http://www.sec.gov). Additional information will also be set forth in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2014. All information provided in this release and in the attachments is as of July 17, 2014, and we undertake no duty to update this information unless required by law.

## ABOUT NON-GAAP FINANCIAL MEASURES

To supplement our consolidated financial statements, which are prepared and presented in accordance with GAAP, we use the following non-GAAP financial measures: non-GAAP operating income, non-GAAP operating margin, non-GAAP net income, non-GAAP EPS, free cash flow, and non-GAAP international revenues. The presentation of this financial information is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. For more information on these non-GAAP financial measures, please see the tables captioned "Reconciliations of non-GAAP results of operations to the nearest comparable GAAP measures," "Reconciliation from net cash provided by operating activities to free cash flow," and "Reconciliation from GAAP international revenues to non-GAAP international revenues" included at the end of this release.

We use these non-GAAP financial measures for financial and operational decision-making and as a means to evaluate period-to-period comparisons. Our management believes that these non-GAAP financial measures provide meaningful supplemental information regarding our performance and liquidity by excluding certain expenses and expenditures that may not be indicative of our recurring core business operating results, meaning our operating performance excluding not only non-cash charges, such as SBC, but also discrete cash charges that are infrequent in nature. We believe that both management and investors benefit from referring to these non-GAAP financial measures in assessing our performance and when planning, forecasting, and analyzing future periods. These non-GAAP financial measures also facilitate management's internal comparisons to our historical performance and liquidity as well as comparisons to our competitors' operating results. We believe these non-GAAP financial measures are useful to investors both because (1) they allow for greater transparency with respect to key metrics used by management in its financial and operational decision-making and (2) they are used by our institutional investors and the analyst community to help them analyze the health of our business.

*Non-GAAP operating income and operating margin.* We define non-GAAP operating income as operating income excluding expenses related to SBC, and, as applicable, other special items. Non-GAAP operating margin is defined as non-GAAP operating income divided by revenues. Google considers these non-GAAP financial measures to be useful metrics for management and investors because they exclude the effect of SBC, and as applicable, other special items so that Google's management and investors can compare Google's recurring core business operating results over multiple periods. Because of varying available valuation methodologies, subjective assumptions and the variety of award types that companies can use under FASB ASC Topic 718, Google's

management believes that providing a non-GAAP financial measure that excludes SBC allows investors to make meaningful comparisons between Google's recurring core business operating results and those of other companies, as well as providing Google's management with an important tool for financial and operational decision making and for evaluating Google's own recurring core business operating results over different periods of time. There are a number of limitations related to the use of non-GAAP operating income versus operating income calculated in accordance with GAAP. First, non-GAAP operating income excludes some costs, namely, SBC, that are recurring. SBC has been and will continue to be for the foreseeable future a significant recurring expense in Google's business. Second, SBC is an important part of our employees' compensation and impacts their performance. Third, the components of the costs that we exclude in our calculation of non-GAAP operating income may differ from the components that our peer companies exclude when they report their results of operations. Management compensates for these limitations by providing specific information regarding the GAAP amounts excluded from non-GAAP operating income and evaluating non-GAAP operating income together with operating income calculated in accordance with GAAP.

*Non-GAAP net income and EPS.* We define non-GAAP net income as net income excluding expenses related to SBC and, as applicable, other special items less the related tax effects, as well as net income (loss) from discontinued operations. The tax effects of SBC and, as applicable, other special items are calculated using the tax-deductible portion of SBC, and, as applicable, other special items, and applying the entity-specific, U.S. federal and blended state tax rates. We define non-GAAP EPS as non-GAAP net income divided by the weighted average outstanding shares, on a fully-diluted basis. We consider these non-GAAP financial measures to be useful metrics for management and investors for the same reasons that Google uses non-GAAP operating income and non-GAAP operating margin. However, in order to provide a complete picture of our recurring core business operating results, we exclude from non-GAAP net income and non-GAAP EPS the tax effects associated with SBC and, as applicable, other special items. Without excluding these tax effects, investors would only see the gross effect that excluding these expenses had on our operating results. The same limitations described above regarding Google's use of non-GAAP operating income and non-GAAP operating margin apply to our use of non-GAAP net income and non-GAAP EPS. Management compensates for these limitations by providing specific information regarding the GAAP amounts excluded from non-GAAP net income and non-GAAP EPS and evaluating non-GAAP net income and non-GAAP EPS together with net income and EPS calculated in accordance with GAAP.

*Free cash flow.* We define free cash flow as net cash provided by operating activities less capital expenditures. We consider free cash flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated by the business that, after the acquisition of property and equipment, including information technology infrastructure and land and buildings, can be used for strategic opportunities, including investing in our business, making strategic acquisitions, and strengthening the balance sheet. Analysis of free cash flow also facilitates management's comparisons of our operating results to competitors' operating results. A limitation of using free cash flow versus the GAAP measure of net cash provided by operating activities as a means for evaluating Google is that free cash flow does not represent the total increase or decrease in the cash balance from operations for the period because it excludes cash used for capital expenditures during the period. Our management compensates for this limitation by providing information about our capital expenditures on the face of the statement of cash flows and under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Quarterly Report on Form 10-Q and Annual Report on Form 10-K. Google has computed free cash flow using the same consistent method from quarter to quarter and year to year.

*Non-GAAP international revenues.* We define non-GAAP international revenues as international revenues excluding the impact of foreign exchange rate movements and hedging activities. Non-GAAP international revenues are calculated by translating current quarter revenues using prior quarter and prior year exchange rates, as well as excluding any hedging gains realized in the current quarter. We consider non-GAAP international revenues as a useful metric as it facilitates management's internal comparison to our historical performance.

The accompanying tables have more details on the non-GAAP financial measures that are most directly comparable to GAAP financial measures and the related reconciliations between these financial measures.

**Contact:**

Investor Relations  
[irgoog@google.com](mailto:irgoog@google.com)

For Media:  
[press@google.com](mailto:press@google.com)