Google Inc.
Form 10-K
February 09, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number: 001-36380
Google Inc.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware<br>(State or other jurisdiction of incorporation or organization) | 77-0493581<br>(I.R.S. Employer Identification No.) |

1600 Amphitheatre Parkway
Mountain View, CA 94043
(Address of principal executive offices) (Zip Code)
(650) 253-0000
(Registrant’s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| Class A Common Stock, $0.001 par value | Nasdaq Stock Market LLC<br>(Nasdaq Global Select Market) |
| Class C Capital Stock, $0.001 par value | Nasdaq Stock Market LLC<br>(Nasdaq Global Select Market) |

Securities registered pursuant to Section 12(g) of the Act:
Title of each class
Class B Common Stock, $0.001 par value
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and

post such files). Yes ý No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 ý Accelerated filer ¨ Non-accelerated filer ¨ 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 ý

As of June 30, 2014, the aggregate market value of shares held by non-affiliates of the registrant (based upon the closing sale prices of such shares on the Nasdaq Global Select Market on June 30, 2014) was approximately $290.0 billion.

As of January 29, 2015, there were 286,938,352 shares of the registrant’s Class A common stock outstanding, 53,018,898 shares of the registrant’s Class B common stock outstanding, and 340,665,532 shares of the registrant’s Class C capital stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s Proxy Statement for the 2015 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the registrant’s fiscal year ended December 31, 2014.

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NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include, among other things, statements regarding:

- the growth of our business and revenues and our expectations about the factors that influence our success and trends in our business;
- our plans to continue to invest in new businesses, products and technologies, systems, facilities, and infrastructure, to continue to hire aggressively and provide competitive compensation programs, as well as to continue to invest in acquisitions;
- seasonal fluctuations in internet usage and advertiser expenditures, traditional retail seasonality and macroeconomic conditions, which are likely to cause fluctuations in our quarterly results;
- the potential for declines in our revenue growth rate;
- our expectation that growth in advertising revenues from our websites will continue to exceed that from our Google Network Members' websites, which will have a positive impact on our operating margins;
- our expectation that we will continue to take steps to improve the relevance of the ads we deliver and to reduce the number of accidental clicks;
- fluctuations in aggregate paid clicks and average cost-per-click;
- our belief that our foreign exchange risk management program will not fully offset our net exposure to fluctuations in foreign currency exchange rates;
- the expected increase of costs related to hedging activities under our foreign exchange risk management program;
- our expectation that our cost of revenues, research and development expenses, sales and marketing expenses, and general and administrative expenses will increase in dollars and may increase as a percentage of revenues;
- our potential exposure in connection with pending investigations, proceedings, and other contingencies;
- our expectation that our traffic acquisition costs will fluctuate in the future;
- our continued investments in international markets;
- estimates of our future compensation expenses;
- fluctuations in our effective tax rate;
- the sufficiency of our sources of funding;
- our payment terms to certain advertisers, which may increase our working capital requirements;
- fluctuations in our capital expenditures;
- our expectations regarding the trading price of our Class A common stock and Class C capital stock;

as well as other statements regarding our future operations, financial condition and prospects, and business strategies. Forward-looking statements may appear throughout this report, including without limitation, the following sections: Item 1 "Business," Item 1A "Risk Factors," and Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations." Forward-looking statements generally can be identified by words such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," "projects," "will be," "will continue," "will likely result," and similar ex
These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties, which could cause our actual results to differ materially from those reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Annual Report on Form 10-K, and in particular, the risks discussed under the caption "Risk Factors" in Item 1A of this report and those discussed in other documents we file with the Securities and Exchange Commission (SEC). We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

As used herein, "Google," "we," "our," and similar terms include Google Inc. and its subsidiaries, unless the context indicates otherwise.

"Google" and other trademarks of ours appearing in this report are our property. This report contains additional trade names and trademarks of other companies. We do not intend our use or display of other companies' trade names

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or trademarks to imply an endorsement or sponsorship of us by such companies, or any relationship with any of these companies.

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PART I

ITEM 1. BUSINESS

Overview

Our founders started Google because they share a profound sense of optimism about the potential for technology to create a positive impact in the world. As Larry and Sergey explained in their first letter to shareholders, our goal is to: "... develop services that significantly improve the lives of as many people as possible."

In many ways, Google itself began with a series of questions: What if we could download and index the entire web? What if we could organize all the world's information? And then we went out and searched for the answers.

We know we've found the right answers when they pass what we call the "toothbrush test," whether this product will be used by hundreds of millions of people everyday, hopefully twice a day.

We are proud of everything we have managed to do. Our innovations in search and advertising have made our website widely used and our brand one of the most recognized in the world. We generate revenues primarily by delivering online advertising that consumers find relevant and that advertisers find cost-effective.

We were incorporated in California in September 1998 and reincorporated in Delaware in August 2003. We provide our products and services in more than 100 languages and in more than 50 countries, regions, and territories. Additional information on our financial performance by geographic areas can be found in Note 15 of the Notes to Consolidated Financial Statements.

Serving Our Users

In many ways search -- and the clean white page with the blinking cursor -- is a metaphor for how we think about innovation at Google. Imagining the ways things could be -- without constraint -- is the process we use to look for better answers to some of life's everyday problems. It's about starting with the "What if?" and then working relentlessly to see if we can find the answer.

It's been that way from the beginning; providing ways to access knowledge and information has been core to Google and our products have come a long way in the last decade. We used to show just ten blue links in our results. You had to click through to different websites to get your answers, which took time. Now we are increasingly able to provide direct answers -- even if you're speaking your question using Voice Search -- which makes it quicker, easier and more natural to find what you're looking for.

Over time, we have added other services that let you access information quickly and easily. What if we could develop a smarter email service with plenty of storage? That's Gmail. What if we could make a simpler, speedier, safer browser? That's Chrome. What if we could provide easy access to movies, books, music and apps, no matter which device you're on? That's Google Play.

As devices proliferate, it's more and more important to ensure that you can navigate effortlessly across them -- that the technology gets out of the way, so you can move through this multi-screen world as easily as possible. It's why we're investing so much in platforms like our Chrome browser and our Android mobile operating system. Ultimately, we want you to have speedy, secure access to whatever you need, wherever you happen to be, and on whatever device you may be using at the time.

Ads as Answers

We asked, what if ads weren't intrusive and annoying? What if we could deliver a relevant ad at just the right time and give people useful commercial information? What if we could provide products that allow for better attribution and measurement across screens so that we show great ads for the right people?

Our advertising solutions help millions of companies grow their businesses, and we offer a wide range of products across screens and devices. We generate revenues primarily by delivering both performance advertising and brand advertising.

- Performance advertising creates and delivers relevant ads that users will click, leading to direct engagement with advertisers. Most of our performance advertisers pay us on a cost-per-engagement basis, like when a user engages in their ads. Performance advertising lets our advertisers connect with users while driving measurable results.

For performance advertisers, AdWords, our primary auction-based advertising program, helps create simple text-based ads that appear on Google websites and the websites of Google Network Members, who

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use our advertising programs to deliver relevant ads alongside their search results and content. In addition, the partners that comprise the Google Network use our AdSense program to deliver relevant ads that generate revenues and enhance the user experience. These programs let both small and large businesses connect with users looking for a specific item, say a pair of shoes or a plane ticket back home. To that end, we continue to invest in our advertising programs and to make significant upgrades, including Enhanced Campaigns, which helps advertisers more easily create advertising and marketing campaigns that run across multiple devices, and Estimated Total Conversions, which help advertisers measure the effectiveness of their campaigns in a multi-screen world.

- Brand advertising helps enhance users' awareness of and affinity with advertisers' products and services, through videos, text, images, and other interactive ads that run across various devices. We help brand advertisers deliver digital videos and other types of ads to specific audiences for their brand-building marketing campaigns and in turn, generate revenue by distributing their ads such as the TrueView ads displayed on our YouTube videos.

We have built a world-class ad technology platform for brand advertisers, agencies, and publishers to power their digital marketing businesses across display, mobile, and video. We aim to ensure great user experiences by serving the right ads at the right time and by building deep partnerships with brands and agencies. We also seek to improve the measurability of the effectiveness of brand advertising.

In addition, we have allocated substantial resources to stopping bad advertising practices and protecting users on the web. Our efforts to focus on our users to ensure the best advertising experiences range from removing hundreds of millions of bad ads from our systems every year to closely monitoring the sites and apps that show our ads and blacklisting them when necessary to ensure that our ads do not fund bad content.

Bringing the Next 5 Billion Online

Fast search and high-quality ads matter only if you have access to the Internet. Right now, only a fraction of the seven billion people in the world are fortunate enough to be able to get online. That leaves out billions of people. With so much useful and life-changing information available today, it is unfortunate that such a significant portion of the world's population lacks even the most basic Internet connection.

That's why we're investing in new projects, like Project Loon. We asked, what if we could use a network of balloons that could fly at the edge of space and provide connectivity in rural and remote areas? Loon has helped students in Brazil and farmers in New Zealand experience the power of an internet connection for the first time. And as the program expands, we hope to bring this to more and more people -- creating opportunities that simply did not exist before for millions of people, all around the world.

Those people will be able to learn and start businesses, to grow and prosper in ways they simply could not without an Internet connection. Creating platforms for other people's success is a huge part of who we are. We want the world to join us online and to be greeted with the best possible experience once they get there. Connection is powerful; and we are working hard to make that promise a reality. The opportunities to improve lives on a grand scale are endless. And there are people around the world whose lives we can improve every day by bringing information into their homes, into their schools, and into their pockets -- showing them just how powerful the simple idea of "getting online" can be.

Moonshots

The idea of trying new things is reflected in some of our new, ambitious projects. Everything might not fit into a neat little box. We believe that is exactly how to stay relevant. Many companies get comfortable doing what they have always done, making a few incremental changes. This incrementalism leads to irrelevance over time, especially in technology, where change tends to be revolutionary, not evolutionary. People thought we were crazy when we acquired YouTube and Android, and when we launched Chrome. But as those efforts have matured into major platforms for digital video and mobile devices, and a safer, popular browser, respectively, we continue to look towards the future and continue to invest for the long-term.

We won't become complacent, relying solely on small tweaks as the years wear on. As we said in the 2004 Founders' IPO Letter, we will not shy away from high-risk, high-reward projects because we believe they are the key to our long-term success. We won't stop asking "What if?" and then working hard to find the answer.

Research

We continue to invest in our existing products and services, including search and advertising, as well as developing new products and services through research and product development. We often release early-stage products. We then use data and user feedback to decide if and how to invest further in those products.

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Our research and development expenses were $6.1 billion, $7.1 billion, and $9.8 billion in 2012, 2013, and 2014, respectively, which included stock-based compensation expense of $1.3 billion, $1.6 billion, and $2.2 billion, respectively. We expect to continue investing in hiring talented employees and building systems to develop new services and improve existing ones.

Competition

Our business is characterized by rapid change as well as new and disruptive technologies. We face formidable competition in every aspect of our business, particularly from companies that seek to connect people with online information and provide them with relevant advertising. We face competition from:

- General purpose search engines and information services, such as Yahoo, Microsoft's Bing, Yandex, Baidu, Naver, WebCrawler, and MyWebSearch.
- Vertical search engines and e-commerce websites, such as Kayak (travel queries), LinkedIn (job queries), WebMD (health queries), and Amazon and eBay (e-commerce). Some users will navigate directly to such content, websites, and apps rather than go through Google.
- Social networks, such as Facebook and Twitter. Some users are increasingly relying on social networks for product or service referrals, rather than seeking information through traditional search engines.
- Other forms of advertising, such as television, radio, newspapers, magazines, billboards, and yellow pages, for ad dollars. Our advertisers typically advertise in multiple media, both online and offline.
- Other online advertising platforms and networks, including Criteo, AppNexus, and Facebook, that compete for advertisers with AdWords, our primary auction-based advertising program.
- Other operating systems and mobile device companies.
- Providers of online products and services that provide answers, information, and services. A number of our online products and services, including Gmail, YouTube, and Google Docs, compete directly with new and established companies, which offer communication, information, storage and entertainment services, either on a stand-alone basis or integrated into other offerings.

Competing successfully depends heavily on our ability to rapidly deliver innovative products and technologies to the marketplace so that we can attract and retain:

- Users, for whom other products and services are literally one click away, primarily on the basis of the relevance and usefulness of our search results and the features, availability, and ease of use of our products and services.
- Advertisers, primarily based on our ability to generate sales leads, and ultimately customers, and to deliver their advertisements in an efficient and effective manner.
- Content providers (Google Network Members, the parties who use our advertising programs to deliver relevant ads alongside their search results and content, as well as other content providers for whom we distribute or license content), primarily based on the quality of our advertiser base, our ability to help these partners generate revenues from advertising, and the terms of our agreements with them.

Intellectual Property

We rely on various intellectual property laws, confidentiality procedures and contractual provisions to protect our proprietary technology and our brand. We have registered, and applied for the registration of, U.S. and international trademarks, service marks, domain names and copyrights. We have also filed patent applications in the US and foreign countries covering certain of our technology, and acquired patent assets to supplement our portfolio. We have licensed in the past, and expect that we may license in the future, certain of our rights to other parties.

Culture and Employees

We take great pride in our culture. We embrace collaboration and creativity, and encourage the iteration of ideas to address complex technical challenges. Transparency and open dialogue are central to how we work, and we like to ensure that company news reaches our employees first through internal channels.

Despite our rapid growth, we still cherish our roots as a startup and wherever possible empower employees to act on great ideas regardless of their role or function within the company. We strive to hire great employees, with backgrounds and perspectives as diverse as those of our global users. We work to provide an environment where these talented people can have fulfilling careers addressing some of the biggest challenges in technology and society.

Our employees are among our best assets and are critical for our continued success. We expect to continue investing in hiring talented employees and to provide competitive compensation programs to our employees. As of December 31, 2014, we had 53,600 full-time employees: 20,832 in research and development, 17,621 in sales and marketing, 7,510 in general and administrative functions, and 7,637 in operations. Although we have work councils and statutory employee representation obligations in certain countries, our U.S. employees are not represented by a

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labor union. Competition for qualified personnel in our industry is intense, particularly for software engineers, computer scientists, and other technical staff.

### Seasonality

Our business is affected by both seasonal fluctuations in Internet usage and traditional retail seasonality. Internet usage generally slows during the summer months, and commercial queries typically increase significantly in the fourth quarter of each year.

### Available Information

Our website is located at www.google.com, and our investor relations website is located at http://investor.google.com. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and our Proxy Statements are available through our investor relations website, free of charge, after we file them with the SEC. We also provide a link to the section of the SEC's website at www.sec.gov that has all of the reports that we file or furnish with the SEC. You may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. You can get information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

We webcast via our investor relations website our earnings calls and certain events we participate in or host with members of the investment community. Our investor relations website and Google+ page (https://plus.google.com/+GoogleInvestorRelations/posts) also provide notifications of news or announcements regarding our financial performance, including SEC filings, investor events, press and earnings releases, and blogs. You can receive notifications of new information posted on our investor relations website in real time by signing up for email alerts and RSS feeds. Further corporate governance information, including our certificate of incorporation, bylaws, governance guidelines, board committee charters, and code of conduct, is also available on our investor relations website under the heading "Corporate Governance." The content of our websites are not incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

## ITEM 1A. RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties, including those described below, which could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our common and capital stock.

### Risks Related to Our Business and Industry

We face intense competition. If we do not continue to innovate and provide products and services that are useful to users, we may not remain competitive, and our revenues and operating results could be adversely affected.

Our business is rapidly evolving, intensely competitive, and is subject to changing technologies, shifting user needs, and frequent introductions of new products and services. Competing successfully depends heavily on our ability to rapidly deliver innovative products and technologies to the marketplace and provide products and services that make our search results and ads relevant and useful for our users. As our business has evolved, the competitive pressure to innovate will now encompass a wider range of products and services, including products and services that may be outside of our historical core business.

We have many competitors in different industries, including general purpose search engines and information services, vertical search engines and e-commerce websites, social networks, providers of online products and services, other forms of advertising and online advertising platforms and networks, other operating systems, and wireless mobile device companies. Our current and potential domestic and international competitors range from large and established companies to emerging start-ups. Established companies have longer operating histories and more established relationships with customers and users, and they can use their experience and resources in ways that could affect our competitive position, including by making acquisitions, continuing to invest heavily in research and development, aggressively initiating intellectual property claims (whether or not meritorious), and continuing to compete aggressively for advertisers and websites. Emerging start-ups may be able to innovate and provide products and services faster than we can or may foresee the consumer need for products and services before us.

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Our competitors are constantly developing innovations in search, online advertising, wireless mobile devices, operating systems, and many other web-based products and services. The research and development of new, technologically advanced products is also a complex and uncertain process requiring high levels of innovation and investment, as well as the accurate anticipation of technology, market trends, and consumer needs. As a result, we must continue to invest significant resources in research and development, including through acquisitions, in order to enhance our search technology and our existing products and services, and introduce new products and services that people can easily and effectively use. If we are unable to provide quality products and services, then acceptance rates for our products and services could decline. In addition, these new products and services may present new and difficult technological and legal challenges, and we may be subject to claims if users of these offerings experience service disruptions or failures or other issues. Our operating results would also suffer if our innovations are not responsive to the needs of our users, advertisers, and Google Network Members, are not appropriately timed with market opportunities, or are not effectively brought to market. As technology continues to develop, our competitors may be able to offer user experiences that are, or that are seen to be, substantially similar to or better than ours. This may force us to compete in different ways and expend significant resources in order to remain competitive. If our competitors are more successful than we are in developing compelling products or in attracting and retaining users, advertisers, and content providers, our revenues and operating results could be adversely affected.

Our ongoing investment in new businesses and new products, services, and technologies is inherently risky, and could disrupt our ongoing businesses.

We have invested and expect to continue to invest in new businesses, products, services, and technologies. Such endeavors may involve significant risks and uncertainties, including distraction of management from current operations, insufficient revenues from such investments to offset liabilities assumed and expenses associated with these new investments, inadequate return of capital on our investments, and unidentified issues not discovered in our due diligence of such strategies and offerings that could cause us to fail to realize the anticipated benefits of such investments and incur unanticipated liabilities. Because these new ventures are inherently risky, no assurance can be given that such strategies and offerings will be successful and will not adversely affect our reputation, financial condition, and operating results.

More people are using devices other than desktop computers to access the Internet and accessing new devices to make search queries. If manufacturers and users do not widely adopt versions of our search technology, products, or operating systems developed for these devices, our business could be adversely affected.

The number of people who access the Internet through devices other than desktop computers, including mobile phones, smartphones, handheld computers such as netbooks and tablets, video game consoles, and television set-top devices, is increasing dramatically. The functionality and user experience associated with some alternative devices make the use of our products and services through such devices more difficult (or just different) and the versions of our products and services developed for these devices may not be compelling to users, manufacturers, or distributors of alternative devices. Each manufacturer or distributor may establish unique technical standards for its devices, and our products and services may not work or be viewable on these devices as a result. Some manufacturers may also elect not to include our products on their devices. In addition, search queries are increasingly being undertaken via “apps” tailored to particular devices or social media platforms, which could affect our search and advertising business over time. As new devices and platforms are continually being released, it is difficult to predict the problems we may encounter in adapting our products and services and developing competitive new products and services. We expect to continue to devote significant resources to the creation, support, and maintenance of products and services across multiple platforms and devices. If we are unable to attract and retain a substantial number of alternative device manufacturers, distributors, developers, and users to our products and services, or if we are slow to develop products and technologies that are more compatible with alternative devices and platforms, we will fail to capture the opportunities available as consumers and advertisers transition to a dynamic, multi-screen environment.

We generate a significant portion of our revenues from advertising, and a reduction in spending by or loss of advertisers could seriously harm our business.

We generated 89% of Google revenues from our advertisers in 2014. Our advertisers can generally terminate their contracts with us at any time. Advertisers will not continue to do business with us if their investment in advertising with us does not generate sales leads or brand awareness, and ultimately customers, or if we do not deliver their advertisements in an efficient and effective manner. If we are unable to remain competitive and provide value to our advertisers, they may stop placing ads with us, which would adversely affect our revenues and business.

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In addition, expenditures by advertisers tend to be cyclical, reflecting overall economic conditions and budgeting and buying patterns. Adverse macroeconomic conditions can also have a material negative impact on the demand for advertising and cause our advertisers to reduce the amounts they spend on advertising, which could adversely affect our revenues and business.

Our revenue growth rate could decline over time, and we anticipate downward pressure on our operating margin in the future.

Our revenue growth rate could decline over time as a result of a number of factors, including as a result of:

- increasing competition,
- changes in property mix, platform mix, and geographical mix,
- the challenges in maintaining our growth rate as our revenues increase to higher levels,
- the evolution of the online advertising market, including the increasing variety of online platforms for advertising, and the other markets in which we participate, and
- the rate of user adoption of our products, services, and technologies.

We believe our operating margin will experience downward pressure as a result of increasing competition and increased expenditures for many aspects of our business. For instance, our operating margin will experience downward pressure if a greater percentage of our revenues comes from ads placed on our Google Network Members' websites compared to revenues generated through ads placed on Google websites or if we spend a proportionately larger amount to promote the distribution of certain products. The margin on revenues we generate from our Google Network Members is significantly less than the margin on revenues we generate from advertising on Google websites. Also, the margin on the sale of digital content and apps, advertising revenues from mobile devices and newer advertising formats are generally less than the margin on revenues we generate from advertising on our websites on traditional formats. Additionally, the margin we earn on revenues generated from our Google Network Members could decrease in the future if we pay an even larger percentage of advertising fees to our Google Network Members.

We are subject to increased regulatory scrutiny that may negatively impact our business.

The growth of our company and our expansion into a variety of new fields involve a variety of new regulatory issues, and we have experienced increased regulatory scrutiny as we have grown. For instance, several regulatory agencies have sought to review our search and other businesses on potential competition concerns. We continue to cooperate with the European Commission (EC) and other regulatory authorities around the world in investigations they are conducting with respect to our business and its impact on competition. Legislators and regulators may make legal and regulatory changes, or interpret and apply existing laws, in ways that make our products and services less useful to our users, require us to incur substantial costs, expose us to unanticipated civil or criminal liability, or cause us to change our business practices. These changes or increased costs could negatively impact our business and results of operations in material ways.

We are regularly subject to claims, suits, government investigations, and other proceedings that may result in adverse outcomes.

We are regularly subject to claims, suits, and government investigations involving competition, intellectual property, privacy, consumer protection, tax, labor and employment, commercial disputes, content generated by our users, goods and services offered by advertisers or publishers using our platforms, and other matters. The sale of hardware products also exposes us to the risk of product liability and other litigation involving assertions about product defects, as well as health and safety, hazardous materials usage, and other environmental concerns. In addition, our businesses face intellectual property litigation, as further discussed later, that exposes us to the risk of exclusion and cease and desist orders, which could limit our ability to sell products and services.

Such claims, suits, and government investigations are inherently uncertain and their results cannot be predicted with certainty. Regardless of the outcome, any of these types of legal proceedings can have an adverse impact on us because of legal costs, diversion of management resources, and other factors. Determining reserves for our pending litigation is a complex, fact-intensive process that requires significant judgment. It is possible that a resolution of one

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or more such proceedings could result in substantial fines and penalties that could adversely affect our business, consolidated financial position, results of operations, or cash flows in a particular period. These proceedings could also result in reputational harm, criminal sanctions, consent decrees, or orders preventing us from offering certain features, functionalities, products, or services, requiring a change in our business practices or product recalls or other field action, or requiring development of non-infringing or otherwise altered products or technologies. Any of these consequences could adversely affect our business and results of operations.

Acquisitions could result in operating difficulties, dilution, and other consequences that may adversely impact our business and results of operations.

Acquisitions are an important element of our overall corporate strategy and use of capital, and these transactions could be material to our financial condition and results of operations. We expect to continue to evaluate and enter into discussions regarding a wide array of potential strategic transactions. The process of integrating an acquired company, business, or technology has created, and will continue to create, unforeseen operating difficulties and expenditures. The areas where we face risks include:

- Diversion of management time and focus from operating our business to acquisition integration challenges.
- Failure to successfully further develop the acquired business or technology.
- Implementation or remediation of controls, procedures, and policies at the acquired company.
- Integration of the acquired company's accounting, human resource, and other administrative systems, and coordination of product, engineering, and sales and marketing functions.
- Transition of operations, users, and customers onto our existing platforms.
- Failure to obtain required approvals on a timely basis, if at all, from governmental authorities, or conditions placed upon approval, under competition laws which could, among other things, delay or prevent us from completing a transaction, or otherwise restrict our ability to realize the expected financial or strategic goals of an acquisition or investment.
- In the case of foreign acquisitions, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political, and regulatory risks associated with specific countries.
- Cultural challenges associated with integrating employees from the acquired company into our organization, and retention of employees from the businesses we acquire.
- Liability for activities of the acquired company before the acquisition, including patent and trademark infringement claims, privacy issues, violations of laws, commercial disputes, tax liabilities, and other known and unknown liabilities.
- Litigation or other claims in connection with the acquired company, including claims from terminated employees, customers, former stockholders, or other third parties.

Our failure to address these risks or other problems encountered in connection with our past or future acquisitions and investments could cause us to fail to realize the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities, and harm our business generally.

Our acquisitions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, or amortization expenses, or impairment of goodwill and/or purchased long-lived assets, and restructuring charges, any of which could harm our financial condition or results. Also, the anticipated benefits or value of our acquisitions or investments may not materialize.

Our business depends on a strong brand, and failing to maintain and enhance our brand would hurt our ability to expand our base of users, advertisers, Google Network Members, and other partners.

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Our strong brand has significantly contributed to the success of our business. Maintaining and enhancing our brand increases our ability to enter new categories and launch new and innovative products that better serve the needs of our users. Our brand may be negatively impacted by a number of factors, including, among others, reputational issues and product/technical performance failures. Further, if we fail to maintain and enhance equity in the Google brand, our business, operating results, and financial condition may be materially and adversely affected. Maintaining and enhancing our brand will depend largely on our ability to remain a technology leader and continue to provide high-quality, innovative products and services that are truly useful and play a meaningful role in people's everyday lives.

A variety of new and existing laws could subject us to claims or otherwise harm our business.

We are subject to numerous U.S. and foreign laws and regulations covering a wide variety of subject matters. New laws and regulations (or new interpretations of existing laws and regulations) may also impact our business. For example, current and new patent laws such as U.S. patent laws and European patent laws may affect the ability of companies, including us, to protect their innovations and defend against claims of patent infringement. The costs of compliance with these laws and regulations are high and are likely to increase in the future.

Claims have been, or may be, threatened and filed against us under both U.S. and foreign laws for defamation, invasion of privacy and other tort claims, unlawful activity, patent, copyright and trademark infringement, product liability, or other theories based on the nature and content of the materials searched and the ads posted by our users, our products and services, or content generated by our users. Furthermore, many of these laws do not contemplate or address the unique issues raised by a number of our new businesses, products, services and technologies. In addition, the applicability and scope of these laws, as interpreted by the courts, remain uncertain. For example, the laws relating to the liability of providers of online services are currently unsettled both within the U.S. and abroad.

In addition, other laws that could subject us to claims or otherwise harm our business include:

- The Digital Millennium Copyright Act, which has provisions that limit in the U.S., but do not necessarily eliminate, our liability for caching or hosting, or for listing or linking to, third-party websites that include materials that infringe copyrights or other rights, so long as we comply with the statutory requirements of this act. Any future legislation impacting these safe harbors may adversely impact us.

- Court decisions such as the 'right to be forgotten' ruling issued by the European court, which allows individuals to demand that Google remove search results about them in certain instances, may limit the content we can show to our users.

- Various U.S. and international laws that restrict the distribution of materials considered harmful to children and impose additional restrictions on the ability of online services to collect information from minors.

- Data protection, laws passed by many states that require notification to users when there is a security breach for personal data, such as California's Information Practices Act.

We face similar risks and costs overseas as our products and services are offered in international markets and may be subject to additional regulations. Any failure on our part to comply with these laws and regulations can result in negative publicity and diversion of management time and effort and may subject us to significant liabilities and other penalties.

We are, and may in the future be, subject to intellectual property or other claims, which are costly to defend, could result in significant damage awards, and could limit our ability to use certain technologies in the future.

Internet, technology, media, and other companies own large numbers of patents, copyrights, trademarks, and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. In addition, patent holding companies may continue to seek to monetize patents they have purchased or otherwise obtained. As we have grown, the intellectual property rights claims against us have increased and may continue to increase as we develop new products, services, and technologies.

We have had patent, copyright, and trademark infringement lawsuits filed against us claiming that certain of our products, services, and technologies infringe the intellectual property rights of others. Third parties have also sought broad injunctive relief against us by filing claims in U.S. and international courts and the U.S. International Trade Commission (ITC) for exclusion and cease and desist orders, which could limit our ability to sell our products or services in the U.S. or elsewhere if our products or services or those of our customers or suppliers are found to infringe the intellectual property subject to the claims. Adverse results in any of these lawsuits may include awards of substantial monetary damages, costly royalty or licensing agreements (if licenses are available at all), or orders preventing us from offering certain features, functionalities, products, or services, and may also cause us to change our business practices, and require development of non-infringing products or technologies, which could result in a loss of revenues for us and otherwise harm our business.

Furthermore, in connection with our divestitures, we have agreed, and may in the future agree, to provide indemnification for certain potential liabilities. In addition, many of our agreements with our customers and partners, including certain suppliers, require us to indemnify them for certain intellectual property infringement claims against them, which could increase our costs as a result of defending such claims, and may require that we pay significant damages if there were an adverse ruling in any such claims. Such customers and partners may also discontinue the use of our products, services, and technologies, as a result of injunctions or otherwise, which could result in loss of revenues and adversely impact our business. Moreover, intellectual property indemnities provided to us by our suppliers, when obtainable, may not cover all damages and losses suffered by us and our customers from covered products.

Regardless of the merits of the claims, intellectual property claims are often time consuming, expensive to litigate or settle, and cause significant diversion of management attention. To the extent such intellectual property infringement claims are successful, they may have an adverse effect on our business, consolidated financial position, results of operations, or cash flows.

Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our products, services, and brand.

Our patents, trademarks, trade secrets, copyrights, and other intellectual property rights are important assets for us. Various events outside of our control pose a threat to our intellectual property rights, as well as to our products, services and technologies. For example, effective intellectual property protection may not be available in every country in which our products and services are distributed or made available through the Internet. Also, the efforts we have taken to protect our proprietary rights may not be sufficient or effective.

Although we seek to obtain patent protection for our innovations, it is possible we may not be able to protect some of these innovations. Moreover, we may not have adequate patent or copyright protection for certain innovations that later turn out to be important. Furthermore, there is always the possibility, despite our efforts, that the scope of the protection gained will be insufficient or that an issued patent may be deemed invalid or unenforceable.

We also seek to maintain certain intellectual property as trade secrets. The secrecy could be compromised by outside parties, or by our employees, which could cause us to lose the competitive advantage resulting from these trade secrets.

We also face risks associated with our trademarks. For example, there is a risk that the word “Google” could become so commonly used that it becomes synonymous with the word “search.” If this happens, we could lose protection for this trademark, which could result in other people using the word “Google” to refer to their own products, thus diminishing our brand.

Any significant impairment of our intellectual property rights could harm our business and our ability to compete. Also, protecting our intellectual property rights is costly and time consuming. Any increase in the unauthorized use of our intellectual property could make it more expensive to do business and harm our operating results.

We may be subject to legal liability associated with providing online services or content.

We host and provide a wide variety of services and products that enable users to exchange information, advertise products and services, conduct business, and engage in various online activities both domestically and internationally. The law relating to the liability of providers of these online services and products for activities of their users is still somewhat unsettled both within the U.S. and internationally. Claims have been threatened and have been brought against us for defamation, negligence, breaches of contract, copyright or trademark infringement, unfair competition, unlawful activity, tort, including personal injury, fraud, or other theories based on the nature and content of information that we publish or to which we provide links or that may be posted online or generated by us or by third parties, including our users. In addition, we are and have been and may again in the future be subject to domestic or international actions alleging that certain content we have generated or third-party content that we have made available within our services violates U.S. and non-U.S. law.

We also arrange for the distribution of third-party advertisements to third-party publishers and advertising networks, and we offer third-party products, services, or content. We may be subject to claims concerning these products, services, or content by virtue of our involvement in marketing, branding, broadcasting, or providing access to them, even if we do not ourselves host, operate, provide, or provide access to these products, services, or content. Defense of any such actions could be costly and involve significant time and attention of our management and other resources, may result in monetary liabilities or penalties, and may require us to change our business in an adverse manner.

Privacy concerns relating to our technology could damage our reputation and deter current and potential users from using our products and services.

From time to time, concerns have been expressed about whether our products, services, or processes compromise the privacy of users and others. Concerns about our practices with regard to the collection, use, disclosure, or security of personal information or other privacy related matters, even if unfounded, could damage our reputation and adversely affect our operating results.

In addition, as nearly all of our products and services are web-based, the amount of data we store for our users on our servers (including personal information) has been increasing. Any systems failure or compromise of our security that results in the release of our users' data could seriously limit the adoption of our products and services, as well as harm our reputation and brand and, therefore, our business. We expect to continue to expend significant resources to protect against security breaches. The risk that these types of events could seriously harm our business is likely to increase as we expand the number of web-based products and services we offer, and operate in more countries.

Regulatory authorities around the world are considering a number of legislative and regulatory proposals concerning data protection, including measures to ensure that our encryption of users' data does not hinder law enforcement agencies' access to that data. In addition, the interpretation and application of consumer and data protection laws in the U.S., Europe and elsewhere are often uncertain and in flux. It is possible that these laws may be interpreted and applied in a manner that is inconsistent with our data practices. If so, in addition to the possibility of fines, this could result in an order requiring that we change our data practices, which could have an adverse effect on our business and results of operations. Complying with these various laws could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business.

If our security measures are breached, or if our services are subject to attacks that degrade or deny the ability of users to access our products and services, our products and services may be perceived as not being secure, users and customers may curtail or stop using our products and services, and we may incur significant legal and financial exposure.

Our products and services involve the storage and transmission of users' and customers' proprietary information, and security breaches expose us to a risk of loss of this information, litigation, and potential liability. We experience cyber attacks of varying degrees on a regular basis. Our security measures may also be breached due to employee error, malfeasance, system errors or vulnerabilities, or otherwise. Additionally, outside parties may attempt to fraudulently induce employees, users, or customers to disclose sensitive information in order to gain access to our data or our users' or customers' data. Any such breach or unauthorized access could result in significant legal and financial exposure, damage to our reputation, and a loss of confidence in the security of our products and services that could potentially have an adverse effect on our business. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose users and customers.

We face a number of manufacturing and supply chain risks that, if not properly managed, could adversely impact our financial results and prospects.

We face a number of risks related to manufacturing and supply chain management. For instance, the products we sell may have quality issues resulting from the design or manufacture of the product, or from the software used in the product. Sometimes, these issues may be caused by components we purchase from other manufacturers or

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suppliers. If the quality of our products does not meet our customers' expectations or our products are found to be defective, then our sales and operating earnings, and ultimately our reputation, could be negatively impacted.

We rely on third parties to manufacture many of our assemblies and finished products, and we have third-party arrangements for the design of some components and parts. Our business could be negatively affected if we are not able to engage third parties with the necessary capabilities or capacity on reasonable terms, or if those we engage fail to meet their obligations (whether due to financial difficulties or other reasons), or make adverse changes in the pricing or other material terms of our arrangements with them.

We have in the past, and may experience in the future, supply shortages and price increases driven by raw material availability, manufacturing capacity, labor shortages, industry allocations, natural disasters and significant changes in the financial or business condition of our suppliers. Workaround plans to address shortages could entail increased freight costs for expedited shipments. We may experience shortages or other supply chain disruptions in the future that could negatively impact our operations. In addition, some of the components we use in our products are available only from a single source or limited sources, and we may not be able to find replacement vendors on favorable terms or at all in the event of a supply chain disruption.

Additionally, because many of our supply contracts have volume-based pricing or minimum purchase requirements, if the volume of our hardware sales decreases or does not reach projected targets, we could face increased materials and manufacturing costs or other financial liabilities that could make our hardware products more costly per unit to manufacture and therefore less competitive and negatively impact our financial results. Further, certain of our competitors may negotiate more favorable contractual terms based on volume and other commitments that may provide them with competitive advantages and may impact our supply.

We also require our suppliers and business partners to comply with law and company policies regarding workplace and employment practices, data security, environmental compliance and intellectual property licensing, but we do not control them or their practices. If any of them violates laws or implements practices regarded as unethical, we could experience supply chain disruptions, canceled orders, terminations of or damage to key relationships, and damage to our reputation. If any of them fails to procure necessary license rights to third-party intellectual property, legal action could ensue that could impact the saleability of our products and expose us to financial obligations to third parties.

The Dodd-Frank Wall Street Reform and Consumer Protection Act includes disclosure requirements regarding the use of certain minerals mined from the Democratic Republic of Congo and adjoining countries (DRC) and procedures pertaining to a manufacturer's efforts regarding the source of such minerals. SEC rules implementing these requirements may have the effect of reducing the pool of suppliers who can supply DRC “conflict free” components and parts, and we may not be able to obtain DRC conflict free products or supplies in sufficient quantities for our operations. Since our supply chain is complex, we may face reputational challenges with our customers, stockholders and other stakeholders if we are unable to sufficiently verify the origins for the minerals used in our products.

Web spam and content farms could decrease our search quality, which could damage our reputation and deter our current and potential users from using our products and services.

“Web spam” refers to websites that attempt to violate a search engine's quality guidelines or that otherwise seek to rank higher in search results than a search engine's assessment of their relevance and utility would rank them.

Although English-language web spam in our search results has been significantly reduced, and web spam in most other languages is limited, we expect web spammers will continue to seek ways to improve their rankings inappropriately. We continuously combat web spam, including through indexing technology that makes it harder for spam-like, less useful web content to rank highly. We face challenges from low-quality and irrelevant content websites, including “content farms”, which are websites that generate large quantities of low-quality content to help them improve their search rankings. We are continually launching algorithmic changes focused on low-quality websites. If our search results display an increasing number of web spam and content farms, this could hurt our reputation for delivering relevant information or reduce user traffic to our websites. In addition, as we continue to take actions to improve our search quality and reduce low-quality content, this may in the short run reduce our AdSense revenues, since some of these websites are AdSense partners.

Interruption or failure of our information technology and communications systems could hurt our ability to effectively provide our products and services, which could damage our reputation and harm our operating results.

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The availability of our products and services depends on the continuing operation of our information technology and communications systems. Our systems are vulnerable to damage or interruption from earthquakes, terrorist attacks, floods, fires, power loss, telecommunications failures, computer viruses, computer denial of service attacks, or other attempts to harm our systems. Some of our data centers are located in areas with a high risk of major earthquakes. Our data centers are also subject to break-ins, sabotage, and intentional acts of vandalism, and to potential disruptions if the operators of certain of these facilities have financial difficulties. Some of our systems are not fully redundant, and our disaster recovery planning cannot account for all eventualities. The occurrence of a natural disaster, a decision to close a facility we are using, or other unanticipated problems at our data centers could result in lengthy interruptions in our service. In addition, our products and services are highly technical and complex and may contain errors or vulnerabilities, which could result in interruptions in our services or the failure of our systems.

Our international operations expose us to additional risks that could harm our business, operating results, and financial condition.

Our international operations are significant to our revenues and net income, and we plan to continue to grow internationally. International revenues accounted for approximately 57% of our consolidated revenues in 2014. In certain international markets, we have limited operating experience and may not benefit from any first-to-market advantages or otherwise succeed.

In addition to risks described elsewhere in this section, our international operations expose us to other risks, including the following:

- Changes in local political, economic, regulatory, social, and labor conditions, which may adversely harm our business.
- Restrictions on foreign ownership and investments, and stringent foreign exchange controls that might prevent us from repatriating cash earned in countries outside the U.S.
- Import and export requirements, tariffs, trade disputes and barriers, and customs classifications that may prevent us from offering products or providing services to a particular market and may increase our operating costs.
- Longer payment cycles in some countries, increased credit risk, and higher levels of payment fraud.
- Still developing foreign laws and legal systems.
- Uncertainty regarding liability for services and content, including uncertainty as a result of local laws and lack of legal precedent.
- Different employee/employer relationships, existence of workers' councils and labor unions, and other challenges caused by distance, language, and cultural differences, making it harder to do business in certain jurisdictions.

In addition, compliance with complex foreign and U.S. laws and regulations that apply to our international operations increases our cost of doing business. These numerous and sometimes conflicting laws and regulations include internal control and disclosure rules, privacy and data protection requirements, anti-corruption laws, such as the U.S. Foreign Corrupt Practices Act, and other local laws prohibiting corrupt payments to governmental officials, and competition regulations, among others. Violations of these laws and regulations could result in fines and penalties, criminal sanctions against us, our officers, or our employees, prohibitions on the conduct of our business and on our ability to offer our products and services in one or more countries, and could also materially affect our brand, our international growth efforts, our ability to attract and retain employees, our business, and our operating results. Although we have implemented policies and procedures designed to ensure compliance with these laws and regulations, there can be no assurance that our employees, contractors, or agents will not violate our policies.

Finally, since we conduct business in currencies other than U.S. dollars but report our financial results in U.S. dollars, we face exposure to fluctuations in currency exchange rates. Although we hedge a portion of our international currency exposure, significant fluctuations in exchange rates between the U.S. dollar and foreign currencies may

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adversely affect our revenues and earnings. Additionally, hedging programs are inherently risky and could expose us to additional risks that could adversely affect our financial condition and results of operations.

Our operating results may fluctuate, which makes our results difficult to predict and could cause our results to fall short of expectations.

Our operating results may fluctuate as a result of a number of factors, many outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance. Our quarterly, year-to-date, and annual expenses as a percentage of our revenues may differ significantly from our historical or projected rates. Our operating results in future quarters may fall below expectations. Any of these events could cause our stock price to fall. Each of the risk factors listed in this section in addition to the following factors may affect our operating results:

- Our ability to continue to attract users to our websites and retain existing users on our websites.
- Our ability to monetize (or generate revenues from) traffic on Google websites and our Google Network Members' websites both on desktop and mobile devices.
- Revenue fluctuations caused by changes in property mix, platform mix, and geographical mix.
- The amount of revenues and expenses generated and incurred in currencies other than U.S. dollars, and our ability to manage the resulting risk through our foreign exchange risk management program.
- The amount and timing of operating costs and expenses and capital expenditures related to the maintenance and expansion of our businesses, operations, and infrastructure.
- Our focus on long-term goals over short-term results.
- The results of our acquisitions and our investments in risky projects, including new businesses, products, services, and technologies.
- Our ability to keep our websites operational at a reasonable cost and without service interruptions.
- Our ability to generate significant revenues from new products and services in which we have invested considerable time and resources.

Because our business is changing and evolving, our historical operating results may not be useful to you in predicting our future operating results. In addition, advertising spending has historically been cyclical in nature, reflecting overall economic conditions, as well as budgeting and buying patterns. Also, user traffic tends to be seasonal. Our rapid growth has tended to mask the cyclicality and seasonality of our business. As our growth rate has slowed, the cyclicality and seasonality in our business has become more pronounced and caused our operating results to fluctuate.

If we were to lose the services of Larry, Sergey, Eric, or other key personnel, we may not be able to execute our business strategy.

Our future success depends in a large part upon the continued service of key members of our senior management team. In particular, Larry Page and Sergey Brin are critical to the overall management of Google and the development of our technology. Along with our Executive Chairman Eric E. Schmidt, they also play a key role in maintaining our culture and setting our strategic direction. All of our executive officers and key employees are at-will employees, and we do not maintain any key-person life insurance policies. The loss of key personnel could seriously harm our business.

We rely on highly skilled personnel and, if we are unable to retain or motivate key personnel, hire qualified personnel, or maintain our corporate culture, we may not be able to grow effectively.

Our performance largely depends on the talents and efforts of highly skilled individuals. Our future success depends on our continuing ability to identify, hire, develop, motivate, and retain highly skilled personnel for all areas of our organization. Competition in our industry for qualified employees is intense, and certain of our competitors have directly targeted our employees. In addition, our compensation arrangements, such as our equity award programs, may not always be successful in attracting new employees and retaining and motivating our existing employees. Our continued ability to compete effectively depends on our ability to attract new employees and to retain and motivate our existing employees.

In addition, we believe that our corporate culture fosters innovation, creativity, and teamwork. As our organization grows, and we are required to implement more complex organizational management structures, we may find it increasingly difficult to maintain the beneficial aspects of our corporate culture. This could negatively impact our future success.

Our business depends on continued and unimpeded access to the Internet by us and our users. Internet access providers may be able to restrict, block, degrade, or charge for access to certain of our products and services, which could lead to additional expenses and the loss of users and advertisers.

Our products and services depend on the ability of our users to access the Internet, and certain of our products require significant bandwidth to work effectively. Currently, this access is provided by companies that have significant market power in the broadband and internet access marketplace, including incumbent telephone companies, cable companies, mobile communications companies, and government-owned service providers. Some of these providers have taken, or have stated that they may take measures, including legal actions, that could degrade, disrupt, or increase the cost of user access to certain of our products by restricting or prohibiting the use of their infrastructure to support or facilitate our offerings, or by charging increased fees to us or our users to provide our offerings. In addition, in some jurisdictions, our products and services have been subject to government-initiated restrictions or blockages. Such interference could result in a loss of existing users and advertisers, and increased costs, and could impair our ability to attract new users and advertisers, thereby harming our revenues and growth.

New technologies could block online ads, which would harm our business.

Technologies have been developed that can block the display of our ads and that provide tools to users to opt out of our advertising products. Most of our revenues are derived from fees paid to us by advertisers in connection with the display of ads on web pages for our users. As a result, such technologies and tools could adversely affect our operating results.

We are exposed to fluctuations in the market values of our investments.

Given the global nature of our business, we have investments both domestically and internationally. Credit ratings and market values of these investments can be negatively impacted by liquidity, credit deterioration or losses, financial results, or other factors. As a result, the value or liquidity of our cash equivalents and marketable securities could decline and result in a material impairment, which could materially adversely affect our financial condition and operating results.

We may have exposure to greater than anticipated tax liabilities.

Our future income taxes could be adversely affected by earnings being lower than anticipated in jurisdictions that have lower statutory tax rates and higher than anticipated in jurisdictions that have higher statutory tax rates, the net gains and losses recognized by legal entities on certain hedges and related hedged intercompany and other transactions under our foreign exchange risk management program, changes in the valuation of our deferred tax assets or liabilities, or changes in tax laws, regulations, or accounting principles, as well as certain discrete items. We are subject to regular review and audit by both domestic and foreign tax authorities. As a result, we have received, and may in the future receive, assessments in multiple jurisdictions on various tax-related assertions, including transfer pricing adjustments or permanent establishment. Any adverse outcome of such a review or audit could have a negative effect on our operating results and financial condition. In addition, the determination of our worldwide provision for income taxes and other tax liabilities requires significant judgment, and there are many transactions and calculations where the ultimate tax determination is uncertain. Although we believe our estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made.

Risks Related to Ownership of Our Stock

The trading price for our Class A common stock may continue to be volatile and the trading price for our newly distributed non-voting Class C capital stock may also be volatile.

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The trading price of our stock has at times experienced substantial price volatility and may continue to be volatile. For example, from January 1, 2014 through December 31, 2014, the closing price of our Class A common stock, retroactively adjusted as if the Stock Split occurred on January 1, 2014, ranged from $498.16 per share to $610.70 per share, and from April 3, 2014 through December 31, 2014, the closing price of our Class C capital stock ranged from $495.39 to $596.08 per share.

In addition, following the settlement of litigation involving the authorization to distribute our non-voting Class C capital stock, our board of directors approved a distribution of shares of Class C capital stock as a dividend to our holders of Class A and Class B common stock with a payment date of April 2, 2014, and on April 3, 2014, Class C capital stock was listed on The NASDAQ Global Select Market. In accordance with the settlement, we may be obligated to make a payment to holders of Class C capital stock if, on average, Class C capital stock trades below Class A common stock during the first 365 days following the first date the Class C capital stock trades. If such a payment is required, it must be made to holders of the Class C stock in cash, Class A stock, Class C stock, or a combination thereof, at the discretion of the board of directors. For further disclosure regarding this potential payment, please refer to Note 12 “Stockholders’ Equity - Stock Split Effected in Form of Stock Dividend” of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K. Over time, we cannot reliably predict what, if any, patterns will emerge with respect to the relative trading prices of Class A common stock and Class C capital stock.

The trading price of our Class A common stock and Class C capital stock may fluctuate widely in response to various factors, some of which are beyond our control. These factors include, among others:

- Quarterly variations in our results of operations or those of our competitors.
- Announcements by us or our competitors of acquisitions, new products, significant contracts, commercial relationships, or capital commitments.
- Recommendations by securities analysts or changes in earnings estimates.
- Announcements about our earnings that are not in line with analyst expectations, the risk of which is enhanced because it is our policy not to give guidance on earnings.
- Announcements by our competitors of their earnings that are not in line with analyst expectations.
- Commentary by industry and market professionals about our products, strategies, and other matters affecting our business and results, regardless of its accuracy.
- The volume of shares of Class A common stock and Class C capital stock available for public sale.
- Sales of Class A common stock and Class C capital stock by us or by our stockholders (including sales by our directors, executive officers, and other employees).
- Short sales, hedging, and other derivative transactions on shares of our Class A common stock and Class C capital stock.
- The perceived values of Class A common stock and Class C capital stock relative to one another.

In addition, the stock market in general, and the market for technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. These broad market and industry factors may harm the market price of our Class A common stock and our Class C capital stock regardless of our actual operating performance.

The concentration of our stock ownership limits our stockholders' ability to influence corporate matters.

Our Class B common stock has 10 votes per share, our Class A common stock has one vote per share, and our Class C capital stock has no voting rights. As of December 31, 2014, Larry, Sergey, and Eric beneficially owned approximately 92.5% of our outstanding Class B common stock, which represented approximately 60.1% of the voting power of our outstanding capital stock. Larry, Sergey, and Eric therefore have significant influence over management and affairs and over all matters requiring stockholder approval, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or our assets, for the foreseeable future. In addition, because our Class C capital stock carries no voting rights (except as required by applicable law), the issuance of the Class C capital stock, including in future stock-based acquisition transactions and to fund employee equity incentive programs, could prolong the duration of Larry and Sergey's current relative ownership of our voting power and their ability to elect all of our directors and to determine the outcome of most matters submitted to a vote of our stockholders. Together with Eric, they would also continue to be able to control any required stockholder vote with respect to certain change in control transactions involving Google (including an acquisition of Google by another company).

This concentrated control limits or severely restricts our stockholders' ability to influence corporate matters and, as a result, we may take actions that our stockholders do not view as beneficial. As a result, the market price of our Class A common stock and our Class C capital stock could be adversely affected.

Provisions in our charter documents and under Delaware law could discourage a takeover that stockholders may consider favorable.

Provisions in our certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our management. These provisions include the following:

- Our certificate of incorporation provides for a tri-class capital stock structure. As a result of this structure, Larry, Sergey, and Eric have significant influence over all matters requiring stockholder approval, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or our assets. This concentrated control could discourage others from initiating any potential merger, takeover, or other change of control transaction that other stockholders may view as beneficial. As noted above, the issuance of the Class C capital stock could have the effect of prolonging the influence of Larry, Sergey, and Eric.

- Our board of directors has the right to elect directors to fill a vacancy created by the expansion of the board of directors or the resignation, death, or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors.

- Our stockholders may not act by written consent. As a result, a holder, or holders, controlling a majority of our capital stock would not be able to take certain actions without holding a stockholders' meeting.

- Our certificate of incorporation prohibits cumulative voting in the election of directors. This limits the ability of minority stockholders to elect director candidates.

- Stockholders must provide advance notice to nominate individuals for election to the board of directors or to propose matters that can be acted upon at a stockholders' meeting. These provisions may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of our company.

- Our board of directors may issue, without stockholder approval, shares of undesignated preferred stock. The ability to issue undesignated preferred stock makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to acquire us.

As a Delaware corporation, we are also subject to certain Delaware anti-takeover provisions. Under Delaware law, a corporation may not engage in a business combination with any holder of 15% or more of its outstanding voting stock unless the holder has held the stock for three years or, among other things, the board of directors has approved the transaction. Our board of directors could rely on Delaware law to prevent or delay an acquisition of us.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved staff comments at December 31, 2014.

## ITEM 2. PROPERTIES

Our headquarters are located in Mountain View, California, where we own approximately 4.8 million square feet of office and building space and approximately fifteen acres of developable land to accommodate anticipated future growth. In addition, we own and lease office and building space, research and development, and sales and support offices primarily in North America, Europe, South America, and Asia. We operate and own data centers in the U.S., Europe, South America, and Asia pursuant to various lease agreements and co-location arrangements. We believe our existing facilities, both owned and leased, are in good condition and suitable for the conduct of our business.

## ITEM 3. LEGAL PROCEEDINGS

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For a description of our material pending legal proceedings, please see Note 10 “Commitments and Contingencies - Legal Matters” of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K, which is incorporated herein by reference.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Class A common stock has been listed on the Nasdaq Global Select Market under the symbol “GOOG” since August 19, 2004 and under the symbol "GOOGL" since April 3, 2014. Prior to August 19, 2004, there was no public market for our stock. The following table sets forth for the indicated periods the high and low sales prices per share for our Class A common stock on the Nasdaq Global Select Market, adjusted for the Stock Split (please see Note 12 of Part II, Item 8 of this Annual Report on Form 10-K for additional information related to the Stock Split).

| Fiscal Year 2014 Quarters Ended: | High | Low |
|---|---|---|
| March 31, 2014 | $610.70 | $551.17 |
| June 30, 2014 | 585.93 | 518.00 |
| September 30, 2014 | 605.40 | 571.81 |
| December 31, 2014 | 587.78 | 498.16 |

| Fiscal Year 2013 Quarters Ended: | High | Low |
|---|---|---|
| March 31, 2013 | $419.72 | $351.79 |
| June 30, 2013 | 458.40 | 383.34 |
| September 30, 2013 | 462.81 | 423.87 |
| December 31, 2013 | 560.92 | 427.26 |

Our Class B common stock is neither listed nor traded.

Our Class C capital stock has been listed on the Nasdaq Global Select Market under the symbol “GOOG” since April 3, 2014. Prior to that time, there was no public market for our Class C capital stock. The following table sets forth for the indicated periods the high and low sales prices per share for our Class C capital stock on the Nasdaq Global Select Market.

| Fiscal Year 2014 Quarters Ended: | High | Low |
|---|---|---|
| March 31, 2014 | $— | $— |
| June 30, 2014 | 578.65 | 509.96 |
| September 30, 2014 | 596.08 | 562.73 |
| December 31, 2014 | 577.35 | 495.39 |

Holders of Record

As of December 31, 2014, there were approximately, 2,448 and 2,507 stockholders of record of our Class A common stock and Class C capital stock, respectively, and the closing prices of our Class A common stock and Class C capital stock were $530.66 and $526.40 per share, respectively, as reported by the NASDAQ Global Select Market. Because many of our shares of Class A common stock and Class C capital stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders. As of December 31, 2014, there were approximately 73 stockholders of record of our Class B common stock.

Dividend Policy

We have never declared or paid any cash dividend on our common or capital stock. We intend to retain any future earnings and do not expect to pay any cash dividends in the foreseeable future.

Stock Performance Graph

The following graph compares the 5-year cumulative total return to shareholders on Google Inc.’s common stock relative to the cumulative total returns of the S&P 500 index, the RDG Internet Composite index, and the NASDAQ Composite index. An investment of $100 (with reinvestment of all dividends) is assumed to have been made in the company’s Class A common stock and in each index on December 31, 2009 and its relative performance is tracked

through December 31, 2014. The returns shown are based on historical results and are not intended to suggest future performance.
COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Google Inc., the S&P 500 Index, the
NASDAQ Composite Index, and the RDG Internet Composite Index
*$100 invested on December 31, 2009 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

This performance graph shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or incorporated by reference into any filing of Google under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

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## ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the related notes appearing in Item 8 “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K.

The consolidated statements of income data for the years ended December 31, 2012, 2013, and 2014 and the consolidated balance sheet data as of December 31, 2013, and 2014 are derived from our audited consolidated financial statements appearing in Item 8 of this Annual Report on Form 10-K. The consolidated statements of income data for the years ended December 31, 2010 and 2011, and the consolidated balance sheet data as of December 31, 2010, 2011, and 2012, are derived from our audited consolidated financial statements that are not included in this Annual Report on Form 10-K. The historical results are not necessarily indicative of the results to be expected in any future period.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 | 2014 |
| | (in millions, except per share amounts) | | | | |
| Consolidated Statements of Income Data: | | | | | |
| Revenues | $29,321 | $37,905 | $46,039 | $55,519 | $66,001 |
| Income from operations | 10,381 | 11,742 | 13,834 | 15,403 | 16,496 |
| Net income from continuing operations | 8,505 | 9,737 | 11,553 | 13,347 | 13,928 |
| Net income (loss) from discontinued operations | 0 | 0 | (816) | (427) | 516 |
| Net income | 8,505 | 9,737 | 10,737 | 12,920 | 14,444 |
| Net income (loss) per share - basic: | | | | | |
| Continuing operations | $13.35 | $15.09 | $17.66 | $20.05 | $20.61 |
| Discontinued operations | 0.00 | 0.00 | (1.25) | (0.64) | 0.76 |
| Net income (loss) per share - basic | $13.35 | $15.09 | $16.41 | $19.41 | $21.37 |
| Net income (loss) per share - diluted: | | | | | |
| Continuing operations | $13.16 | $14.88 | $17.39 | $19.70 | $20.27 |
| Discontinued operations | 0.00 | 0.00 | (1.23) | (0.63) | 0.75 |
| Net income (loss) per share - diluted | $13.16 | $14.88 | $16.16 | $19.07 | $21.02 |

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 | 2014 |
| | (in millions) | | | | |
| Consolidated Balance Sheet Data: | | | | | |
| Cash, cash equivalents, and marketable securities | $34,975 | $44,626 | $48,088 | $58,717 | $64,395 |
| Total assets | 57,851 | 72,574 | 93,798 | 110,920 | 131,133 |
| Total long-term liabilities | 1,614 | 5,516 | 7,746 | 7,703 | 9,828 |
| Total stockholders’ equity | 46,241 | 58,145 | 71,715 | 87,309 | 104,500 |

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## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Please read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements and related notes included under Item 8 of this Annual Report on Form 10-K.

### Trends in Our Business

The following trends have contributed to the results of our operations, and we anticipate that they will continue to impact our future results:

• User behaviors and advertising continue to shift online as the digital economy evolves.

The continuing shift from an offline to online world has contributed to the growth of our business since our inception, resulting in increasing revenues, and we expect that this online shift will continue to benefit our business.

• Users are increasingly using multiple devices to access our products and services, and our advertising revenues are increasingly coming from mobile phones and other new formats.

Our users are accessing the Internet via multiple devices. Mobile computing power continues to grow and users want to feel connected no matter where they are or what they are doing. We seek to expand our products and services to stay in front of this shift in order to maintain and grow our business.

In this multi-device world, we generate our advertising revenues increasingly from mobile phones and newer advertising formats, and the margins from the advertising revenues from these sources have generally been lower than those from desktop computers and tablets. Our traffic acquisition cost (TAC) may also be impacted because the rates at which we share mobile revenues with our partners may not be as favorable to us as those with our traditional desktop and tablet formats. We expect both of these trends to continue to pressure our overall margins, particularly if we fail to realize the opportunities presented during the transition to a dynamic multi-screen environment.

• As users in developing economies increasingly come online, we generate more and more revenues from international markets.

The shift to online, as well as the advent of the multi-device world, has brought opportunities outside of the U.S., especially in emerging markets, and we continue to develop localized versions of our products and relevant advertising programs useful to our users in these markets. This has led to increased revenues from international markets over time and we expect that our results will continue to be impacted by our performance in these markets, particularly as low-cost mobile devices become more available.

Our international revenues have gone from 55% of total revenues in 2013 to 57% in 2014. As a result, we are increasingly subject to fluctuations in foreign currency exchange rates relative to the U.S. dollar. While we have a foreign exchange risk management program designed to reduce our exposure to these fluctuations, this program does not fully offset their effect on our revenues and earnings.

• As we seek to provide our users with products and services in a multi-screen environment, the portion of our revenues that we derive from non-advertising revenues is increasing.

Non-advertising revenues have gone from 9% of total revenues in 2013 to 11% in 2014. We expect this trend to continue as we focus on expanding our offerings to our users through products like Google Play, Google for Work, and Nexus devices. We derive other revenues primarily from sales of digital content products, hardware sales, and licensing. The margins on these non-advertising businesses vary significantly and may be lower than the margins on our advertising business.

• As we continue to look for new ways to serve our users, we will invest heavily in R&D and our capital expenditures will continue to fluctuate.

We continue to make significant research and development (R&D) investments in areas of strategic focus, such as search and advertising, as well as in new products and services. The amount of our capital expenditures has fluctuated and may continue to fluctuate in the long term as we invest heavily in our systems, data centers, real estate and facilities, and information technology infrastructure.

In addition, acquisitions remain an important part of our strategy and use of capital, and we expect to continue to spend cash on acquisitions and other investments. These acquisitions generally enhance the breadth and depth of our offerings, as well as expanding our expertise in engineering and other functional areas.

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- Our employees are critical to our success and we expect to continue investing in them.

Our employees are among our best assets and are critical for our continued success. Their energy and talent drive Google and create our success. We expect to continue hiring talented employees and to provide competitive compensation programs to our employees. As of December 31, 2014, we had 53,600 full-time employees: 20,832 in research and development, 17,621 in sales and marketing, 7,510 in general and administrative, and 7,637 in operations, an increase of 9,738 total headcount from December 31, 2013.

Executive Overview of Results

Here are our key financial results for the fiscal year ended December 31, 2014:

- Consolidated revenues increased 18.9% to $66.0 billion, primarily driven by an increase in advertising revenues generated by Google websites and an increase in other revenues, and to a lesser extent, an increase in advertising revenues generated by Google Network Members' websites.
- Revenues from the United States, the United Kingdom, and Rest of World were, $28.1 billion, $6.5 billion, and $31.4 billion, respectively.
- Cost of revenues was $25.7 billion, consisting of traffic acquisition costs of $13.5 billion and other cost of revenues of $12.2 billion. Our traffic acquisition costs as a percentage of advertising revenues was 22.9%.
- Operating expenses (excluding cost of revenues) were $23.8 billion, primarily driven by labor and facilities-related costs for our research and development and sales and marketing functions, advertising and promotional expenses, and stock-based compensation expense.
- Income from operations was $16.5 billion.
- Effective tax rate was 19.3%.
- Net income was $14.4 billion with diluted earnings per share of $21.02.
- Operating cash flow was $22.4 billion.
- Capital expenditures were $11.0 billion.

Results of Operations

The following table presents our operating results as a percentage of revenues for the periods presented:

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | 2013 | | 2014 | |
| Consolidated Statements of Income Data: | | | | | | |
| Revenues | 100.0 | % | 100.0 | % | 100.0 | % |
| Costs and expenses: | | | | | | |
| Cost of revenues | 37.3 | | 39.6 | | 38.9 | |
| Research and development | 13.2 | | 12.9 | | 14.9 | |
| Sales and marketing | 11.9 | | 11.8 | | 12.3 | |
| General and administrative | 7.6 | | 8.0 | | 8.9 | |
| Total costs and expenses | 70.0 | % | 72.3 | % | 75.0 | % |
| Income from operations | 30.0 | | 27.7 | | 25.0 | |
| Interest and other income, net | 1.4 | | 0.9 | | 1.2 | |
| Income from continuing operations before income taxes | 31.4 | | 28.6 | | 26.2 | |
| Provision for income taxes | 6.3 | | 4.6 | | 5.1 | |
| Net income from continuing operations | 25.1 | | 24.0 | | 21.1 | |
| Net income (loss) from discontinued operations | (1.8 | ) | (0.7 | ) | 0.8 | |
| Net income | 23.3 | % | 23.3 | % | 21.9 | % |

Motorola

On May 22, 2012, we acquired Motorola Mobility Holdings, Inc. (Motorola), consisting of the Motorola Home and Motorola Mobile businesses. On April 17, 2013, we sold the Motorola Home business to Arris Group, Inc. (Arris). The financial results of Motorola Home were included in net income (loss) from discontinued operations on the Consolidated Statements of Income for the years ended December 31, 2012 and 2013. On October 29, 2014 we sold the Motorola

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Mobile business to Lenovo Group Limited (Lenovo). The financial results of Motorola Mobile are presented as net income (loss) from discontinued operations on the Consolidated Statements of Income for the years ended December 31, 2012, 2013, and 2014.

Revenues

The following table presents our revenues, by revenue source, for the periods presented (in millions):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2012 | 2013 | 2014 |
| Advertising revenues: | | | |
| Google websites | $31,221 | $37,422 | $45,085 |
| Google Network Members' websites [1] | 12,465 | 13,125 | 13,971 |
| Total advertising revenues | 43,686 | 50,547 | 59,056 |
| Other revenues | 2,353 | 4,972 | 6,945 |
| Revenues | $46,039 | $55,519 | $66,001 |

[1] Our revenues from Google Network Members' websites include revenues generated primarily through advertising programs including AdSense for search, AdSense for content, AdExchange, AdMob, and DoubleClick Bid Manager.

The following table presents our revenues, by revenue source, as a percentage of revenues for the periods presented:

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | 2013 | | 2014 | |
| Advertising revenues: | | | | | | |
| Google websites | 67.8 | % | 67.4 | % | 68.3 | % |
| Google Network Members' websites | 27.1 | | 23.6 | | 21.2 | |
| Total advertising revenues | 94.9 | % | 91.0 | % | 89.5 | % |
| Other revenues | 5.1 | | 9.0 | | 10.5 | |
| Revenues | 100.0 | % | 100.0 | % | 100.0 | % |
| | | | | | | |
| Google websites as % of advertising revenues | 71.5 | % | 74.0 | % | 76.3 | % |
| Google Network Members' websites as % of advertising revenues | 28.5 | % | 26.0 | % | 23.7 | % |

Advertising Revenues and Monetization Metrics

Our advertising revenues increased $8,509 million from 2013 to 2014 primarily from an increase in advertising revenues generated by both Google websites and Google Network Members' websites. Our advertising revenues growth was driven primarily by an increase in the number of aggregate paid clicks through our advertising programs of 20% from 2013 to 2014. The increase in the number of paid clicks generated through our advertising programs was due to certain monetization improvements including new and richer ad formats, an increase in aggregate traffic across all platforms, the continued global expansion of our products, advertisers, and user base, and an increase in the number of Google Network Members, partially offset by certain advertising policy changes. The positive impact of our revenues from paid clicks was partially offset by a decrease in the average cost-per-click paid by our advertisers of 5% from 2013 to 2014. The decrease was due to various factors, such as the geographic mix, device mix, property mix, ongoing product and policy changes, and the general strengthening of the U.S. dollar compared to certain foreign currencies.

Our advertising revenues increased $6,861 million from 2012 to 2013. This increase resulted primarily from an increase in advertising revenues generated by Google websites, and to a lesser extent, an increase in advertising revenues generated by Google Network Members' websites. The increase in advertising revenues for Google websites and Google Network Members' websites resulted primarily from an increase in the number of paid clicks through our advertising programs, as paid clicks on Google websites and Google Network Members' websites increased approximately 25% from 2012 to 2013. The increase in the number of paid clicks generated through our advertising programs was due to certain monetization improvements including new and richer ad formats, an increase in aggregate traffic across all platforms, the continued global expansion of our products, advertisers, and user base, as well as an increase in the number of Google Network Members, partially offset by certain advertising policy changes. This revenue

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increase was partially offset by a decrease in the average cost-per-click paid by our advertisers. Average cost-per-click on Google websites and Google Network Members' websites decreased approximately 8% from 2012 to 2013. The decrease in the average cost-per-click paid by our advertisers was driven by various factors, such as the geographic mix, device mix, property mix, ongoing product and policy changes, and the general strengthening of the U.S. dollar compared to certain foreign currencies.

Our revenue growth rate has generally declined over time as a result of a number of factors, including increasing competition, query growth rates, challenges in maintaining our growth rate as our revenues increase to higher levels, the evolution of the online advertising market, our investments in new business strategies, changes in our product mix, and shifts in the geographic mix of our revenues. We also expect that our revenue growth rate will continue to be affected by evolving user preferences, advertising trends, the acceptance by users of our products and services as they are delivered on diverse devices, and our ability to create a seamless experience for both users and advertisers.

The following table presents the changes in our paid clicks and cost-per-click for the periods presented (in percentage terms):

| | Change from 2012 to 2013 | Change from 2013 to 2014 |
|---|---|---|
| Aggregate paid clicks | 25 % | 20 % |
| Paid clicks on Google websites [1] | 33 % | 29 % |
| Paid clicks on Google Network Members' websites [2] | 11 % | 2 % |
| | | |
| Aggregate cost-per-click | (8 )% | (5 )% |
| Cost-per-click on Google websites | (10 )% | (7 )% |
| Cost-per-click on Google Network Members' websites | (8 )% | (6 )% |

[1] Paid clicks on Google websites include clicks related to ads served on Google owned and operated properties across different geographies and devices, including search, YouTube engagement ads like TrueView, and other owned and operated properties including Maps and Finance.

[2] Paid clicks on Google Network Members' websites include clicks related to ads served on non-Google properties participating in our AdSense for Search, AdSense for Content, and AdMob businesses.

The rate of change in revenues, as well as the rate of change in paid clicks and average cost-per-click on Google websites and Google Network Members' websites and their correlation with the rate of change in revenues, has fluctuated and may fluctuate in the future because of various factors, including:

- growth rates of our revenues from Google websites compared to those of our revenues from Google Network Members' websites;
- advertiser competition for keywords;
- changes in foreign currency exchange rates;
- seasonality;
- the fees advertisers are willing to pay based on how they manage their advertising costs;
- changes in advertising quality or formats;
- traffic growth in emerging markets compared to more mature markets and across various advertising verticals and channels;
- a shift in the proportion of non-click based revenue generated in Google websites and Google Network Members' websites; and
- general economic conditions.

Changes in aggregate paid clicks and average cost-per-click on Google websites and Google Network Members' websites may not reflect our performance or advertiser experiences in any specific geographic market, vertical, or industry.

Other Revenues

Other revenues increased $1,973 million from 2013 to 2014 and also increased as a percentage of total revenues. The increase was primarily due to growth of our sales of digital content products, such as apps, music, and movies on the

Google Play store.
Other revenues increased $2,619 million from 2012 to 2013 and also increased as a percentage of revenues. The increase was primarily due to growth of our digital content products, such as apps, music, and movies. We also

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experienced an increase in our hardware revenues due to increased sales of Chromecast, directly-sold Nexus products, and Chrome OS devices.

Revenues by Geography

The following table presents our domestic and international revenues as a percentage of revenues, determined based on the billing addresses of our customers:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2012 | 2013 | 2014 |
| United States | 46 % | 45 % | 43 % |
| United Kingdom | 11 % | 10 % | 10 % |
| Rest of the world | 43 % | 45 % | 47 % |

The growth in revenues from rest of the world as a percentage of revenues from 2012 to 2013 and from 2013 to 2014 resulted largely from increased acceptance of our advertising programs and our continued progress in developing localized versions of our products for international markets, partially offset in 2014 by the general strengthening of the U.S. dollar relative to certain foreign currencies.

Foreign Exchange Impact on Revenues

Our international revenues are favorably impacted as the U.S. dollar weakens relative to other foreign currencies, and unfavorably impacted as the U.S dollar strengthens relative to other foreign currencies. For the purposes of determining the impact of foreign currency exchange rate fluctuations on our revenues, we take the U.S. dollar equivalent of foreign currency-denominated revenues of a particular period translated at the current period exchange rates minus the same revenues translated at corresponding prior year rates.

We use foreign currency options to hedge certain foreign exchange impacts on our forecasted earnings. To the extent these derivatives are effective in managing our foreign exchange risk, we will reflect the hedge benefit in revenues in the period the hedged revenues are recorded. We pay a premium reflecting the time value of the option on the date of purchase. The changes in the time value of the option are reflected in interest and other income, net, over the life of the option, in the period incurred.

The following table presents our foreign exchange impact on revenues for the periods presented:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2012 | 2013 | 2014 |
| United Kingdom revenues | $4,846 | $5,600 | $6,483 |
| Foreign exchange impact on current year revenues using corresponding prior year exchange rates -- (revenues would be higher)/revenues would be lower | (68) | (67) | 303 |
| Hedging gains recognized in current year | 18 | 63 | 3 |
| | | | |
| Rest of the world revenues | $19,906 | $25,167 | $31,379 |
| Foreign exchange impact on current year revenues using corresponding prior year exchange rates -- (revenues would be higher)/revenues would be lower | (1,099) | (536) | (858) |
| Hedging gains recognized in current year | 199 | 32 | 168 |

In 2014, our revenues from the United Kingdom were favorably impacted by changes in foreign currency exchange rates over the prior year, primarily as the U.S. dollar weakened relative to certain currencies, most notably the British pound. Our revenues from the rest of the world (excluding the United Kingdom) were unfavorably impacted by changes in foreign currency exchange rates over the prior year, as the U.S. dollar strengthened relative to certain currencies, most notably the Japanese yen and the Australian dollar, and partially offset by the favorable impact of the U.S. dollar weakening against certain currencies, most notably the euro.

In 2013, our revenues from the United Kingdom were unfavorably impacted by changes in foreign currency exchange rates over the prior year, primarily as the U.S dollar strengthened relative to certain currencies, most notably the British pound. Our revenues from the rest of the world (excluding the United Kingdom) were unfavorably impacted by changes in foreign currency exchange rates over the prior year, as the U.S. dollar strengthened relative to certain currencies, most notably the Japanese yen and the Brazilian real, and partially offset by the favorable impact of the U.S. dollar weakening relative to certain currencies, including the euro.

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Costs and Expenses

Cost of Revenues

Cost of revenues consists of traffic acquisition costs which are the advertising revenues shared with our Google Network Members and the amounts paid to our distribution partners who distribute our browser or otherwise direct search queries to our website.

Additionally, other cost of revenues (which is the cost of revenues minus traffic acquisition costs) includes the following:

- Content acquisition costs primarily related to payments to certain content providers from whom we license their video and other content for distribution on YouTube and Google Play (we share most of the fees these sales generate with content providers or pay a fixed fee to these content providers);
- The expenses associated with the operation of our data centers (including depreciation, labor, energy, and bandwidth costs);
- Inventory costs for hardware we sell;
- Stock-based compensation paid to our employees;
- Credit card and other transaction fees related to processing customer transactions; and
- Amortization of certain intangible assets.

The following tables present our cost of revenues and cost of revenues as a percentage of revenues, and our traffic acquisition costs and traffic acquisition costs as a percentage of advertising revenues, for the periods presented (dollars in millions):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2012 | 2013 | 2014 |
| Traffic acquisition costs | $10,956 | $12,258 | $13,497 |
| Other cost of revenues | $6,220 | $9,735 | $12,194 |
| Total cost of revenues | $17,176 | $21,993 | $25,691 |
| Cost of revenues as a percentage of revenues | 37.3 % | 39.6 % | 38.9 % |

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2012 | 2013 | 2014 |
| Traffic acquisition costs to Google Network Members | $8,791 | $9,293 | $9,864 |
| Traffic acquisition costs to distribution partners | 2,165 | 2,965 | 3,633 |
| Traffic acquisition costs | $10,956 | $12,258 | $13,497 |
| Traffic acquisition costs as a percentage of advertising revenues | 25.1 % | 24.2 % | 22.9 % |

The cost of revenues that we incur related to revenues generated from ads placed through our AdSense program on the websites of our Google Network Members, which is the network of third parties that use our advertising programs to deliver relevant ads with their search results and content, are significantly higher than the costs of revenues we incur related to revenues generated from ads placed on Google websites because most of the advertiser fees from ads served on Google Network Members' websites are shared with our Google Network Members. For the past five years, growth in advertising revenues from Google websites has generally exceeded that from our Google Network Members' websites. This had a positive impact on our income from operations during this period.

Cost of revenues increased $3,698 million from 2013 to 2014. The increase was partially due to increases in traffic acquisition costs of $1,239 million resulting from more distribution fees paid for additional traffic directed to Google websites, as well as more advertiser fees paid to Google Network Members, driven primarily by an increase in advertising revenues. The remaining increase was primarily driven by an increase in data center costs, content acquisition costs as a result of increased usage activities related to YouTube and digital content by our users, and revenue share payments to mobile carriers and original equipment manufacturers (OEMs). In addition, the increase was also driven by an impairment charge related to a patent licensing royalty asset acquired in connection with the Motorola acquisition. The decrease in traffic acquisition costs as a percentage of advertising revenues was primarily a result of a shift of mix between Google website revenue and Google Network Members' websites revenue.

Cost of revenues increased $4,817 million from 2012 to 2013. The increase was due to increases in traffic acquisition costs of $1,302 million resulting from more distribution fees paid, more fees paid for additional traffic directed to

Google websites, as well as more advertiser fees generated through our AdSense program. The remaining increase

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was primarily driven by an increase in data center costs, hardware inventory costs as a result of increased hardware sales, content acquisition costs as a result of increased activities related to YouTube and digital content, and revenue share payments to mobile carriers and original equipment manufacturers (OEMs). The decrease in traffic acquisition costs as a percentage of advertising revenues was primarily as a result of a shift of mix between Google website revenue and Google Network Members' websites revenue.

We expect cost of revenues will increase in dollar amount and may increase as a percentage of total revenues in 2015 and future periods, based on a number of factors, including the following:

- The relative growth rates of revenues from Google websites and from our Google Network Members’ websites;
- The growth rates of expenses associated with our data center operations, as well as our hardware inventory costs;
- Increased proportion of other non-advertising revenues as part of our total revenues;
- Whether we are able to enter into more revenue share arrangements with Google Network Members and distribution partners that provide for lower revenue share obligations or whether increased competition for arrangements with existing and potential Google Network Members and distribution partners results in less favorable revenue share arrangements;
- Whether we are able to continue to improve the monetization of traffic on Google websites and our Google Network Members' websites; and
- The relative growth rates of expenses associated with distribution arrangements and the related revenues generated.

Research and Development

The following table presents our R&D expenses, and those expenses as a percentage of revenues, for the periods presented (dollars in millions):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2012 | 2013 | 2014 |
| Research and development expenses | $6,083 | $7,137 | $9,832 |
| Research and development expenses as a percentage of revenues | 13.2 % | 12.9 % | 14.9 % |

R&D expenses consist primarily of:

- Labor and facilities-related costs for employees responsible for R&D in our existing businesses as well as new products and services;
- Depreciation and equipment-related expenses; and
- Stock-based compensation expense for employees responsible for R&D.

R&D expenses increased $2,695 million and increased as a percentage of revenues from 2013 to 2014. The increase was primarily due to an increase in labor and facilities-related costs of $1,289 million and an increase in stock-based compensation expense of $559 million, both largely as a result of a 27% increase in R&D headcount. In addition, there was an increase in depreciation and equipment-related expenses of $425 million and an increase in professional services of $371 million due to additional expenses incurred for consulting and outsourced services. R&D expenses increased as a percentage of revenues primarily due to a higher increase in labor and facilities-related costs relative to the increase in revenues.

R&D expenses increased $1,054 million from 2012 to 2013 and as a percentage of revenues remained relatively flat from 2012 to 2013. The increase in expenses was primarily due to an increase in labor and facilities-related costs of $596 million and an increase in stock-based compensation expense of $367 million, both largely as a result of an 18% increase in R&D headcount.

We expect that R&D expenses will increase in dollar amount and may increase as a percentage of revenues in 2015 and future periods.

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Sales and Marketing

The following table presents our sales and marketing expenses, and those expenses as a percentage of revenues, for the periods presented (dollars in millions):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2012 | 2013 | 2014 |
| Sales and marketing expenses | $5,465 | $6,554 | $8,131 |
| Sales and marketing expenses as a percentage of revenues | 11.9 % | 11.8 % | 12.3 % |

Sales and marketing expenses consist primarily of:

- Labor and facilities-related costs for our personnel engaged in sales and marketing, sales support, and certain customer service functions;
- Advertising and promotional expenditures related to our products and services; and
- Stock-based compensation expense for our employees engaged in sales, sales support, and certain customer service functions.

Sales and marketing expenses increased $1,577 million and increased slightly as a percentage of revenues from 2013 to 2014. The increase was primarily due to an increase in advertising and promotional expenses of $614 million. In addition, there was an increase in labor and facilities-related costs of $571 million and an increase in stock-based compensation expense of $163 million, both largely resulting from a 15% increase in sales and marketing headcount. Sales and marketing expenses increased slightly as a percentage of revenues primarily due to an increase in advertising and promotional expenses relative to the increase in revenues.

Sales and marketing expenses increased $1,089 million from 2012 to 2013 and as a percentage of revenues remained flat from 2012 to 2013. The increase in expenses was primarily due to an increase in advertising and promotional expenses of $674 million, as well as an increase in labor and facilities-related costs of $233 million and an increase in stock-based compensation expense of $103 million, both largely resulting from a 13% increase in sales and marketing headcount.

We expect that sales and marketing expenses will increase in dollar amount and may increase as a percentage of revenues in 2015 and future periods.

General and Administrative

The following table presents our general and administrative expenses, and those expenses as a percentage of revenues, for the periods presented (dollars in millions):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2012 | 2013 | 2014 |
| General and administrative expenses | $3,481 | $4,432 | $5,851 |
| General and administrative expenses as a percentage of revenues | 7.6 % | 8.0 % | 8.9 % |

General and administrative expenses consist primarily of:

- Labor and facilities-related costs for personnel in our facilities, finance, human resources, information technology, and legal organizations;
- Professional services fees primarily related to outside legal, audit, information technology consulting, and outsourcing services;
- Amortization of certain intangible assets; and
- Stock-based compensation expense.

General and administrative expenses increased $1,419 million and also increased as a percentage of revenues from 2013 to 2014. The increase was primarily due to an increase in labor and facilities-related costs of $576 million and an increase in stock-based compensation expense of $260 million, both largely resulting from a 24% increase in general and administrative headcount. In addition, there was an increase in professional services related expense of $314 million due to higher legal-related costs, as well as additional consulting and outsourced services. General and administrative expenses increased as a percentage of revenues primarily due to an increase in labor and facilities-related costs and stock-based compensation expense relative to the increase in revenues.

General and administrative expenses increased $951 million from 2012 to 2013 and as a percentage of revenues remained relatively flat from 2012 to 2013. The increase in expenses was primarily due to an increase in labor and

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facilities-related costs of $396 million, largely resulting from a 15% increase in general and administrative headcount, an increase in depreciation and equipment-related expense of $222 million, as well as an increase in amortization of acquired intangible assets of $157 million.

We expect general and administrative expenses will increase in dollar amount and may fluctuate as a percentage of revenues in 2015 and in future periods.

Stock-Based Compensation

The following table presents our aggregate stock-based compensation expense, and stock-based compensation as a percentage of revenues, as reflected in our consolidated results from continuing operations for the periods presented (dollars in millions):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2012 | 2013 | 2014 |
| Stock-based compensation | $2,473 | $3,127 | $4,175 |
| Stock-based compensation as a percentage of revenues | 5.4 % | 5.6 % | 6.3% |

Stock-based compensation increased $1,048 million from 2013 to 2014 and increased slightly as a percentage of revenues. These increases were primarily due to an increased headcount to support our growing business. In addition, we granted additional stock awards to our employees throughout 2014.

Stock-based compensation increased $654 million from 2012 to 2013 and as a percentage of consolidated revenues remained flat from 2012 to 2013. This increase in expenses was primarily due to an increase in headcount to support our growing business.

We estimate stock-based compensation expense to be approximately $4.3 billion in 2015 and $5.5 billion thereafter related to stock awards outstanding as of December 31, 2014. This estimate does not include expenses to be recognized related to stock-based awards granted after December 31, 2014. If forfeiture rates are different from what we have anticipated, stock-based compensation related to these awards will be different from our expectations.

Interest and Other Income, Net

The following table presents the components included in Interest and Other Income, Net, as reflected in our consolidated results from continuing operations for the periods presented (dollars in millions):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2012 | 2013 | 2014 |
| Interest and other income, net | $635 | $496 | $763 |
| Interest and other income, net as a percentage of revenues | 1.4 % | 0.9 % | 1.2% |

Interest and other income, net, increased $267 million from 2013 to 2014. This increase was primarily driven by realized gains on non-marketable equity investments of $159 million and previously-held equity interests of $126 million, as well as a loss recognized on divestiture of businesses (other than Motorola Home) in 2013. These increases were partially offset by an increase in foreign currency exchange loss of $23 million and a decrease in interest income of $20 million.

Interest and other income, net, decreased $139 million from 2012 to 2013. This decrease was primarily driven by a decrease in the gain on divestiture of businesses (other than Motorola Home) of $245 million and a decrease in the realized gain on investments of $124 million, partially offset by a decrease in foreign currency exchange loss of $135 million and an increase in interest income of $66 million.

The costs of our foreign exchange hedging activities recognized to interest and other income, net, are primarily a function of the notional amount of the option and forward contracts and their related duration, the movement of the foreign exchange rates relative to the strike prices of the contracts, and the volatility of foreign exchange rates.

As we expand our international business, we believe costs related to hedging activities under our foreign exchange risk management program may increase in 2015 and future periods.

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Provision for Income Taxes

The following table presents our provision for income taxes, and effective tax rate for the periods presented (dollars in millions):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2012 | 2013 | 2014 |
| Provision for income taxes | $2,916 | $2,552 | $3,331 |
| Effective tax rate | 20.2 % | 16.1 % | 19.3 % |

Our provision for income taxes and our effective tax rate increased from 2013 to 2014, largely due to proportionately more earnings realized in countries that have higher statutory tax rates and more benefit recognized in 2013 relative to 2014 due to the retroactive extension of the 2012 federal research and development credit, offset by a benefit taken on a valuation allowance release related to a capital loss carryforward in 2014.

Our provision for income taxes and our effective tax rate decreased from 2012 to 2013, primarily as a result of proportionately more earnings realized in countries that have lower statutory tax rates, as well as the federal research and development credit related to the American Taxpayer Relief Act of 2012 which was applied in the first quarter of 2013.

A reconciliation of the federal statutory income tax rate to our effective tax rate is set forth in Note 14 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries that have lower statutory rates and higher than anticipated in countries that have higher statutory rates, the net gains and losses recognized by legal entities on certain hedges and related hedged intercompany and other transactions under our foreign exchange risk management program, changes in the valuation of our deferred tax assets or liabilities, or changes in tax laws, regulations, or accounting principles, as well as certain discrete items.

We are subject to the continuous examination of our income tax returns by the Internal Revenue Service (IRS) and other domestic and foreign tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. We continue to monitor the progress of ongoing discussions with tax authorities and the impact, if any, of the expected expiration of the statute of limitations in various taxing jurisdictions. Further information on these issues, the treatment of undistributed foreign earnings and a reconciliation of the federal statutory income tax rate to our effective tax rate can be found in Notes 10 and 14 of Part II, Item 8 of this Annual Report on Form 10-K.

See Critical Accounting Policies and Estimates below for additional information about our provision for income taxes.

Net Income (Loss) from Discontinued Operations

Motorola Mobile

On October 29, 2014, we closed the sale of the Motorola Mobile business to Lenovo for a total purchase price of approximately $2.9 billion (subject to certain adjustments), including $1.4 billion paid at close, comprised of $660 million in cash and $750 million in Lenovo ordinary shares. The remaining $1.5 billion was paid in the form of an interest-free, three-year prepayable promissory note.

We maintain ownership of the vast majority of the Motorola Mobile patent portfolio, including pre-closing patent applications and invention disclosures, which we licensed to Motorola Mobile for its continued operations. Additionally, in connection with the sale, we agreed to indemnify Lenovo for certain potential liabilities of the Motorola Mobile business, for which we recorded a liability of $130 million as of December 31, 2014.

The sale resulted in a gain of $740 million, net of tax, which was presented as part of net income from discontinued operations in the Consolidated Statements of Income for the year ended December 31, 2014. Incremental to this net gain, we recognized an additional income of $254 million, net of tax, in connection with certain IP licensing arrangements between the parties, included as part of net income from discontinued operations on the Consolidated Statements of Income for the year ended December 31, 2014.

The financial results of Motorola Mobile through the date of divestiture are presented as net income (loss) from discontinued operations on the Consolidated Statements of Income. The following table presents financial results of the Motorola Mobile business included in net income (loss) from discontinued operations for the years ended December 31, 2012, 2013, and 2014 (in millions):

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| | Year Ended December 31, | | |
|---|---|---|---|
| | 2012 | 2013 | 2014 [(1)] |
| Revenues | $4,136 | $4,306 | $5,486 |
| Loss from discontinued operations before income taxes | (1,083) | (1,403) | (177) |
| Benefits from/(Provision for) income taxes | 318 | 270 | (47) |
| Gain on disposal | 0 | 0 | 740 |
| Net (loss) income from discontinued operations | $(765) | $(1,133) | $516 |

(1) The operating results of Motorola Mobile were included in our Consolidated Statements of Income from January 1, 2014 through October 29, 2014, the date of divestiture.

Motorola Home

On April 17, 2013, we sold the Motorola Home business to Arris.

The financial results of Motorola Home through the date of divestiture are presented as net income (loss) from discontinued operations on the Consolidated Statement of Income. The following table presents financial results of the Motorola Home business included in net income (loss) from discontinued operations for the years ended December 31, 2012 and 2013 (in millions):

| | Year Ended December 31, | |
|---|---|---|
| | 2012 | 2013 [(1)] |
| Revenues | $2,028 | $804 |
| Loss from discontinued operations before income taxes | (22) | (67) |
| (Provision for)/Benefits from income taxes | (29) | 16 |
| Gain on disposal | 0 | 757 |
| Net (loss) income from discontinued operations | $(51) | $706 |

(1) The operating results of Motorola Home were included in our Consolidated Statements of Income from January 1, 2013 through April 17, 2013, the date of divestiture.

Quarterly Results of Operations

The following tables presenting our quarterly results of operations should be read in conjunction with the consolidated financial statements and related notes included in Item 8 of this Annual Report on Form 10-K. We have prepared the unaudited information on the same basis as our audited consolidated financial statements. Our operating results for any quarter are not necessarily indicative of results for any future quarters or for a full year. Please note that previously reported quarters have been adjusted to show discontinued operations for the sale of the Motorola Mobile and Motorola Home businesses. In addition, per share amounts for the previously reported quarters below have been retroactively adjusted to reflect the Stock Split. Please see Note 1 and Note 12 of Part II, Item 8 of this Annual Report on Form 10-K for additional information on the Stock Split.

The following table presents our unaudited quarterly results of operations for the eight quarters ended December 31, 2014. This table includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary for fair presentation of our consolidated financial position and operating results for the quarters presented. Both seasonal fluctuations in internet usage and traditional retail seasonality have affected, and are likely to continue to affect, our business. Internet usage generally slows during the summer months, and commercial queries typically increase significantly in the fourth quarter of each year. These seasonal trends have caused and will likely continue to cause, fluctuations in our quarterly results, including fluctuations in sequential revenue growth rates.

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| | Quarter Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Mar 31, 2013 | Jun 30, 2013 | Sep 30, 2013 | Dec 31, 2013 | Mar 31, 2014 | Jun 30, 2014 | Sep 30, 2014 | Dec 31, 2014 |
| | (In millions, except per share amounts) (unaudited) | | | | | | | |
| Consolidated Statements of Income Data: | | | | | | | | |
| Revenues | $12,951 | $13,107 | $13,754 | $15,707 | $15,420 | $15,955 | $16,523 | $18,103 |
| Costs and expenses: | | | | | | | | |
| Cost of revenues | 5,136 | 5,195 | 5,409 | 6,253 | 5,961 | 6,114 | 6,695 | 6,921 |
| Research and development | 1,617 | 1,766 | 1,821 | 1,933 | 2,126 | 2,238 | 2,655 | 2,813 |
| Sales and marketing | 1,435 | 1,583 | 1,628 | 1,908 | 1,729 | 1,941 | 2,084 | 2,377 |
| General and administrative | 1,015 | 1,098 | 1,135 | 1,184 | 1,489 | 1,404 | 1,365 | 1,593 |
| Total costs and expenses | 9,203 | 9,642 | 9,993 | 11,278 | 11,305 | 11,697 | 12,799 | 13,704 |
| Income from operations | 3,748 | 3,465 | 3,761 | 4,429 | 4,115 | 4,258 | 3,724 | 4,399 |
| Interest and other income, net | 134 | 236 | 14 | 112 | 357 | 145 | 133 | 128 |
| Income from continuing operations before income taxes | 3,882 | 3,701 | 3,775 | 4,541 | 4,472 | 4,403 | 3,857 | 4,527 |
| Provision for income taxes | 354 | 927 | 612 | 659 | 822 | 913 | 859 | 737 |
| Net income from continuing operations | $3,528 | $2,774 | $3,163 | $3,882 | $3,650 | $3,490 | $2,998 | $3,790 |
| Net income (loss) from discontinued operations | (182) | 454 | (193) | (506) | (198) | (68) | (185) | 967 |
| Net income | $3,346 | $3,228 | $2,970 | $3,376 | $3,452 | $3,422 | $2,813 | $4,757 |
| Net income (loss) per share - basic: | | | | | | | | |
| Continuing operations | $5.34 | $4.17 | $4.74 | $5.80 | $5.42 | $5.17 | $4.42 | $5.58 |
| Discontinued operations | (0.28) | 0.68 | (0.29) | (0.76) | (0.29) | (0.10) | (0.27) | 1.43 |
| Net income per share - basic | $5.06 | $4.85 | $4.45 | $5.04 | $5.13 | $5.07 | $4.15 | $7.01 |
| Net income (loss) per share - diluted: | | | | | | | | |
| Continuing operations | $5.24 | $4.10 | $4.66 | $5.69 | $5.33 | $5.09 | $4.36 | $5.50 |
| Discontinued operations | (0.27) | 0.67 | (0.28) | (0.74) | (0.29) | (0.10) | (0.27) | 1.41 |
| Net income per share - diluted | $4.97 | $4.77 | $4.38 | $4.95 | $5.04 | $4.99 | $4.09 | $6.91 |

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The following table presents our unaudited quarterly results of operations as a percentage of revenues for the eight quarters ended December 31, 2014:

| | Quarter Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Mar 31, 2013 | Jun 30, 2013 | Sep 30, 2013 | Dec 31, 2013 | Mar 31, 2014 | Jun 30, 2014 | Sep 30, 2014 | Dec 31, 2014 |
| Revenues | 100.0 % | 100.0 % | 100.0 % | 100.0 % | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| Costs and expenses: | | | | | | | | |
| Cost of revenues | 39.7 | 39.6 | 39.3 | 39.8 | 38.7 | 38.3 | 40.5 | 38.2 |
| Research and development | 12.5 | 13.5 | 13.2 | 12.3 | 13.8 | 14.0 | 16.1 | 15.5 |
| Sales and marketing | 11.1 | 12.1 | 11.8 | 12.1 | 11.2 | 12.2 | 12.6 | 13.1 |
| General and administrative | 7.8 | 8.4 | 8.3 | 7.5 | 9.7 | 8.8 | 8.3 | 8.8 |
| Total costs and expenses | 71.1 | 73.6 | 72.6 | 71.7 | 73.4 | 73.3 | 77.5 | 75.6 |
| Income from operations | 28.9 | 26.4 | 27.4 | 28.3 | 26.6 | 26.7 | 22.5 | 24.3 |
| Interest and other income, net | 1.0 | 1.8 | 0.1 | 0.7 | 2.3 | 0.9 | 0.8 | 0.7 |
| Income from continuing operations before income taxes | 29.9 | 28.2 | 27.5 | 29.0 | 28.9 | 27.6 | 23.3 | 25.0 |
| Provision for income taxes | 2.7 | 7.1 | 4.4 | 4.2 | 5.3 | 5.7 | 5.2 | 4.1 |
| Net income from continuing operations | 27.2 % | 21.1 % | 23.1 % | 24.8 % | 23.6 % | 21.9 % | 18.1 % | 20.9 % |
| Net income (loss) from discontinued operations | (1.4 ) | 3.5 | (1.4 ) | (3.2 ) | (1.3 ) | (0.4 ) | (1.1 ) | 5.3 |
| Net income | 25.8 % | 24.6 % | 21.7 % | 21.6 % | 22.3 % | 21.5 % | 17.0 % | 26.2 % |

Capital Resources and Liquidity

Capital Resources

As of December 31, 2014, we had $64.4 billion of cash, cash equivalents, and marketable securities. Cash equivalents and marketable securities are comprised of time deposits, money market and other funds, including cash collateral received related to our securities lending program, fixed-income bond funds, highly liquid debt instruments of the U.S. government and its agencies, debt instruments issued by foreign governments, debt instruments issued by municipalities in the U.S., corporate debt securities, mortgage-backed securities, and asset-backed securities. From time to time, we may hold marketable equity securities obtained through acquisitions or strategic investments in private companies that subsequently go public, which we generally dispose of when restrictions are lifted.

As of December 31, 2014, $38.7 billion of the $64.4 billion of cash, cash equivalents, and marketable securities was held by our foreign subsidiaries. If these funds were needed for our operations in the U.S., we would be required to accrue and pay U.S. taxes to repatriate these funds. However, our intent is to permanently reinvest these funds outside of the U.S. and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations.

Our principal sources of liquidity are our cash, cash equivalents, and marketable securities, as well as the cash flow that we generate from our operations. As of December 31, 2014, we had unused letters of credit of approximately $842 million. We believe that our sources of funding will be sufficient to satisfy our currently anticipated cash requirements through at least the next 12 months. Our liquidity could be negatively affected by a decrease in demand for our products and services. In addition, we may make acquisitions, increase our capital expenditures, or license products and technologies complementary to our business and may need to raise additional capital through future debt or equity financing to provide for greater flexibility to fund these activities. Additional financing may not be available or on terms favorable to us.

We have a debt financing program of up to $3.0 billion through the issuance of commercial paper. Net proceeds from this program are used for general corporate purposes. As of December 31, 2014, we had $2.0 billion of commercial paper outstanding recorded as short-term debt, with a weighted-average interest rate of 0.1% that matures at various dates through April 2015. Average commercial paper borrowings during the year were $2.1 billion and the maximum amount outstanding during the year was $2.4 billion. In conjunction with this program, we have a $3.0 billion revolving

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credit facility expiring in July 2016. The interest rate for the credit facility is determined based on a formula using certain market rates. As of December 31, 2014, we were in compliance with the financial covenant in the credit facility and no amounts were outstanding.

In May 2011, we issued $3.0 billion of unsecured senior notes (2011 Notes) in three equal tranches, due in 2014, 2016, and 2021. The net proceeds from the sale of the 2011 Notes were used to repay a portion of our outstanding commercial paper and for general corporate purposes. In February 2014, we issued $1.0 billion of unsecured senior notes (2014 Notes) due in 2024, which was used to repay $1.0 billion of the first tranche of our 2011 Notes that matured in May 2014 and for general corporate purposes.

As of December 31, 2014, the 2011 and 2014 notes had a total carrying value of $3.0 billion and a total estimated fair value of $3.1 billion. We are not subject to any financial covenants under the notes.

In August 2013, we entered into a $258 million capital lease obligation on certain property expiring in 2028 with an option to purchase in 2016. The effective rate of the capital lease obligation approximates the market rate. The estimated fair value of the capital lease obligation approximated its carrying value as of December 31, 2014.

Liquidity

For 2012, 2013 and 2014, our cash flows were as follows (in millions):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2012 | 2013 | 2014 |
| Net cash provided by operating activities | $16,619 | $18,659 | $22,376 |
| Net cash used in investing activities | (13,056) | (13,679) | (21,055) |
| Net cash provided by (used in) financing activities | 1,229 | (857) | (1,439) |

Cash Provided by Operating Activities

Our largest source of cash provided by our operations is advertising revenues generated by Google websites and Google Network Members' websites. Additionally, we generate cash through sales of digital content and licensing payments. Prior to its divestiture, we also generated cash from sales of hardware products related to the Motorola Mobile business.

Our primary uses of cash from our operating activities include payments to our Google Network Members and distribution partners, and payments for content acquisition costs. Prior to the sale of the Motorola Mobile business, our use of cash also included payment for manufacturing and inventory-related costs in the Motorola Mobile business. In addition, uses of cash from operating activities include compensation and related costs, other general corporate expenditures, and income taxes.

Net cash provided by operating activities increased from 2013 to 2014 primarily due to increased net income adjusted for depreciation and loss on disposal of property and equipment and stock-based compensation expense, and a net increase in cash from changes in working capital primarily driven by changes in prepaid revenue share, expenses, and other assets.

Net cash provided by operating activities increased from 2012 to 2013 primarily due to increased net income adjusted for gain on divestiture of businesses, depreciation and amortization expense on property and equipment, stock-based compensation expense, and amortization of intangible assets. These increases were partially offset by the net decrease in cash from changes in working capital primarily as a result of a decrease in income taxes, an increase in accounts receivable and inventories, offset by an increase in accounts payable.

Cash Used in Investing Activities

Cash provided by or used in investing activities primarily consists of purchases of property and equipment, as well as acquisitions and divestitures of businesses and intangible assets. Our cash provided or used in investing activities includes purchases, maturities, and sales of marketable securities in our investment portfolio and our investments in reverse repurchase agreements and the cash collateral received or returned from our securities lending program.

Cash used in investing activities increased from 2013 to 2014 primarily due to increases in capital expenditures related to our production equipment, data centers, and real estate purchases, higher spend related to acquisitions, and lower proceeds received in 2014 from divestiture of businesses compared to 2013. This increase was partially offset by a net decrease in purchases of marketable securities.

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Cash used in investing activities increased from 2012 to 2013 primarily due to a net increase in purchases of marketable securities and an increase in capital expenditures primarily related to our production equipment, data centers, and real estate purchases. This increase was partially offset by lower spend related to acquisitions and an increase in proceeds received from divestiture of businesses.

Cash Provided by (Used in) Financing Activities

Cash used in financing activities consists primarily of net proceeds or payments from issuance or repayments of debt and net proceeds or payments and excess tax benefits from stock-based award activities.

Cash used in financing activities increased from 2013 to 2014 primarily driven by an increase in net payments related to stock-based award activities, offset partially by a decrease in net cash payments related to debt.

Cash used in financing activities increased from 2012 to 2013 primarily driven by an increase in net cash payments related to debt and, to a lesser extent, an increase in net payments for stock-based award activities.

Contractual Obligations as of December 31, 2014

| | Payments Due By Period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| | (in millions) | | | | |
| Operating lease obligations, net of sublease income amounts | $6,183 | $598 | $1,256 | $1,172 | $3,157 |
| Purchase obligations | 2,700 | 1,735 | 465 | 154 | 346 |
| Long-term debt obligations, including capital lease obligations | 3,843 | 107 | 1,390 | 140 | 2,206 |
| Possible Adjustment Payment to Class C capital stockholders | 593 | 593 | 0 | 0 | 0 |
| Other long-term liabilities reflected on our balance sheet | 954 | 212 | 441 | 89 | 212 |
| Total contractual obligations | $14,273 | $3,245 | $3,552 | $1,555 | $5,921 |

Operating Leases

We have entered into various non-cancelable operating lease agreements for certain of our offices, land, and data centers throughout the world with original lease periods expiring primarily between 2015 and 2063. We are committed to pay a portion of the related operating expenses under certain of these lease agreements. These operating expenses are not included in the above table. Certain of these leases have free or escalating rent payment provisions. We recognize rent expense under such leases on a straight-line basis over the term of the lease. Certain leases have adjustments for market provisions. In October 2014, we entered into certain non-cancelable office lease agreements with original lease periods expiring between 2027 and 2028 where we will be the deemed owner for accounting purposes of new construction projects. Future minimum lease payments under the leases total approximately $1.0 billion, of which $250 million is included on the Consolidated Balance Sheet as of December 31, 2014 as a an asset and corresponding non-current liability, which represents our estimate of construction costs incurred, and the balance of which is included in the schedule above.

Purchase Obligations

Purchase obligations represent non-cancelable contractual obligations as of December 31, 2014. These contracts are primarily related to video and other content licensing revenue sharing arrangements, data center operations and facility build-outs, as well as purchase of inventory.

Long-term Debt Obligations

Long-term debt obligations represent principal and interest payments to be made over the life of our unsecured senior notes issued in May 2011 and May 2014, and our capital lease obligation incurred in August 2013. Please see Note 3 of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K for further details.

Possible Adjustment Payment to Class C Capital Stockholders

In accordance with a settlement of litigation involving the authorization to distribute the Class C capital stock, we may be obligated to make a payment (the Possible Adjustment Payment) to holders of the Class C capital stock if, on a volume-weighted average basis, the Class C capital stock trades below the Class A common stock during the first

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