Google Inc.
Form 10-Q
October 30, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2012

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission file number: 000-50726

Google Inc.

(Exact name of registrant as specified in its charter)

Delaware	**77-0493581**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

1600 Amphitheatre Parkway

Mountain View, CA 94043

(Address of principal executive offices, including zip code)

(650) 253-0000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer ¨

Non-accelerated filer (Do not check if a smaller reporting company) ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

At October 15, 2012, there were 264,956,901 shares of Google s Class A common stock outstanding and 63,637,291 shares of Google s Class B common stock outstanding.

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Google Inc.

Form 10-Q

For the Quarterly Period Ended September 30, 2012

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NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q 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;
- seasonal fluctuations in internet usage and traditional retail seasonality, which are likely to cause fluctuations in our quarterly results;
- our plans to continue to invest in systems, facilities, infrastructure, and our hiring, provide competitive compensation programs, and continue our current pace of acquisitions;
- 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 pay most of the fees we receive from advertisers to our Google Network Members;
- our expectations about the impact of our acquisition of Motorola Mobility Holdings, Inc. (Motorola) on our results and business and our ability to realize the expected benefits from the acquisition and successfully implement our plans and expectations for Motorola s business;
- 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 the exposure to fluctuations in foreign currency exchange rates;
- the 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 and proceedings;

- our expectations about our board of directors intention to declare a dividend of shares of the new Class C capital stock, as well as the timing of that dividend, if declared and paid;
- our expectation that our traffic acquisition costs will fluctuate in the future;
- continued investments in international markets;
- 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; and
- fluctuations in our capital expenditures;

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: Part I, Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations and Part II, Item 1A, Risk Factors. Forward-looking statements generally can be identified by words such as anticipates, believes, estimates, expects, intends, plans, predicts, projects, will be, will continue, and similar expressions. 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 Quarterly Report on Form 10-Q, and in particular, the risks discussed under the caption Risk Factors in Part II, 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.

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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 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 FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Google Inc.

CONSOLIDATED BALANCE SHEETS

(In millions, except share and par value amounts which are reflected in thousands,

and par value per share amounts)

	As of December 31, 2011	As of September 30, 2012 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	$ 9,983	$ 16,260
Marketable securities	34,643	29,464
Total cash, cash equivalents, and marketable securities (including securities loaned of $2,778 and $2,861)	44,626	45,724
Accounts receivable, net of allowance of $133 and $560	5,427	7,259
Inventories	35	618
Receivable under reverse repurchase agreements	745	550
Deferred income taxes, net	215	230
Prepaid revenue share, expenses and other assets	1,710	2,440
Total current assets	52,758	56,821
Prepaid revenue share, expenses and other assets, non-current	499	2,206
Non-marketable equity securities	790	1,063
Property and equipment, net	9,603	11,401
Intangible assets, net	1,578	7,754
Goodwill	7,346	10,485
Total assets	$ 72,574	$ 89,730
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 588	$ 2,233
Short-term debt	1,218	3,218
Accrued compensation and benefits	1,818	1,926
Accrued expenses and other current liabilities	1,370	3,313
Accrued revenue share	1,168	1,108
Securities lending payable	2,007	1,686
Deferred revenue	547	905
Income taxes payable, net	197	45
Total current liabilities	8,913	14,434
Long-term debt	2,986	2,988
Deferred revenue, non-current	44	100
Income taxes payable, non-current	1,693	2,034

Deferred income taxes, net, non-current	287	1,461
Other long-term liabilities	506	685
Stockholders equity:		
Convertible preferred stock, $0.001 par value per share, 100,000 shares authorized; no shares issued and outstanding	0	0
Class A and Class B common stock and additional paid-in capital, $0.001 par value per share: 9,000,000 shares authorized (Class A 6,000,000, Class B 3,000,000) and 12,000,000 shares authorized (Class A 9,000,000, Class B 3,000,000); 324,895 (Class A 257,553, Class B 67,342) and par value of $325 (Class A $258, Class B $67) and 328,552 (Class A 264,515, Class B 64,037) and par value of $329 (Class A $265, Class B $64) shares issued and outstanding	20,264	22,204
Class C capital stock, $0.001 par value per share: 3,000,000 shares authorized; no shares issued and outstanding	0	0
Accumulated other comprehensive income	276	368
Retained earnings	37,605	45,456
Total stockholders equity	58,145	68,028
Total liabilities and stockholders equity	$ 72,574	$ 89,730

See accompanying notes.

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Google Inc.

CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share amounts)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2012
	(unaudited)			
Revenues:				
Google (advertising and other)	$ 9,720	$ 11,526	$ 27,322	$ 33,135
Motorola (hardware and other)	0	2,575	0	3,825
Total revenues	$ 9,720	$ 14,101	$ 27,322	$ 36,960
Costs and expenses:				
Cost of revenues Google (advertising and other)[1]	3,378	4,440	9,485	12,213
Cost of revenues Motorola (hardware and other)[1]	0	2,114	0	3,143
Research and development [1]	1,404	2,009	3,861	5,035
Sales and marketing [1]	1,204	1,760	3,322	4,462
General and administrative[1]	676	1,042	1,919	2,779
Charge related to the resolution of Department of Justice investigation	0	0	500	0
Total costs and expenses	6,662	11,365	19,087	27,632
Income from operations	3,058	2,736	8,235	9,328
Interest and other income, net	302	63	602	473
Income before income taxes	3,360	2,799	8,837	9,801
Provision for income taxes	631	623	1,804	1,950
Net income	$ 2,729	$ 2,176	$ 7,033	$ 7,851
Net income per share of Class A and Class B common stock:				
Basic	$ 8.44	$ 6.64	$ 21.82	$ 24.05
Diluted	$ 8.33	$ 6.53	$ 21.53	$ 23.69

[1] Includes stock-based compensation expense as follows:				
Cost of revenues Google (advertising and other)	$ 72	$ 103	$ 172	$ 259
Cost of revenues Motorola (hardware and other)	0	8	0	13
Research and development	311	378	795	968
Sales and marketing	104	155	256	372
General and administrative	84	118	214	364
	$ 571	$ 762	$ 1,437	$ 1,976

See accompanying notes.

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Google Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2012
	(unaudited)			
Net income	$ 2,729	$ 2,176	$ 7,033	$ 7,851
Other comprehensive income (loss):				
Change in foreign currency translation adjustment	(328)	220	129	(98)
Available-for-sale investments:				
Change in net unrealized gains	10	198	175	408
Less: reclassification adjustment for net gains included in net income	(91)	(21)	(170)	(169)
Net change (net of tax effect of $35, $73, $33, and $83)	(81)	177	5	239
Cash flow hedges:				
Change in net unrealized gains	39	(74)	(27)	65
Less: reclassification adjustment for net gains included in net income	(1)	(39)	(13)	(114)
Net change (net of tax effect of $23, $67, $32, and $29)	38	(113)	(40)	(49)
Other comprehensive income (loss)	(371)	284	94	92
Comprehensive income	$ 2,358	$ 2,460	$ 7,127	$ 7,943

See accompanying notes.

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Google Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2012
	(unaudited)	
Operating activities		
Net income	$ 7,033	$ 7,851
Adjustments:		
Depreciation and amortization of property and equipment	1,011	1,358
Amortization of intangible and other assets	337	651
Stock-based compensation expense	1,437	1,976
Excess tax benefits from stock-based award activities	(61)	(113)
Deferred income taxes	526	23
Gain on divestiture of business	0	(188)
Other	3	(24)
Changes in assets and liabilities, net of effects of acquisitions and divestiture:		
Accounts receivable	(247)	(228)
Income taxes, net	268	1,336
Inventories	(18)	188
Prepaid revenue share, expenses and other assets	(128)	(1,215)
Accounts payable	72	(274)
Accrued expenses and other liabilities	255	484
Accrued revenue share	70	(57)
Deferred revenue	83	182
Net cash provided by operating activities	10,641	11,950
Investing activities		
Purchases of property and equipment	(2,487)	(2,253)
Purchases of marketable securities	(43,693)	(24,246)
Maturities and sales of marketable securities	33,107	29,800
Investments in non-marketable equity securities	(358)	(246)
Cash collateral related to securities lending	694	(321)
Investments in reverse repurchase agreements	(395)	195
Acquisitions, net of cash acquired and proceeds received from divestiture, and purchases of intangible and other assets	(1,350)	(10,471)
Net cash used in investing activities	(14,482)	(7,542)
Financing activities		
Net payments from stock-based award activities	(20)	(189)
Excess tax benefits from stock-based award activities	61	113
Proceeds from issuance of debt, net of costs	8,780	12,125
Repayment of debt	(8,054)	(10,128)
Net cash provided by financing activities	767	1,921
Effect of exchange rate changes on cash and cash equivalents	74	(52)

Net increase (decrease) in cash and cash equivalents	(3,000)	6,277
Cash and cash equivalents at beginning of year	13,630	9,983
Cash and cash equivalents at end of period	$ 10,630	$ 16,260
Supplemental disclosures of cash flow information		
Cash paid for taxes	$ 914	$ 1,684
Cash paid for interest	$ 0	$ 38
Non-cash financing activity:		
Fair value of stock-based awards assumed in connection with acquisition of Motorola	$ 0	$ 41

See accompanying notes.

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Google Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Google Inc. and Summary of Significant Accounting Policies

Nature of Operations

We were incorporated in California in September 1998. We were re-incorporated in the State of Delaware in August 2003. We generate revenues primarily by delivering relevant, cost-effective online advertising in our Google segment. In addition, as a result of our acquisition of Motorola Mobility Holdings, Inc. (Motorola) on May 22, 2012, we generate revenues from sales of mobile devices in our Motorola Mobile (Mobile) segment and digital set-top boxes in our Motorola Home (Home) segment. See Notes 8 and 15 for further discussion of the acquisition and our segment information.

Basis of Consolidation

The consolidated financial statements include the accounts of Google Inc. and our wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated.

Unaudited Interim Financial Information

The accompanying Consolidated Balance Sheet as of September 30, 2012, the Consolidated Statements of Income for the three and nine months ended September 30, 2011 and 2012, the Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2011 and 2012, and the Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2012 are unaudited. These unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). In our opinion, the unaudited interim consolidated financial statements include all adjustments of a normal recurring nature necessary for the fair presentation of our financial position as of September 30, 2012, our results of operations for the three and nine months ended September 30, 2011 and 2012, and our cash flows for the nine months ended September 30, 2011 and 2012. The results of operations for the three and nine months ended September 30, 2012 are not necessarily indicative of the results to be expected for the year ending December 31, 2012.

These unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 filed with the SEC on January 26, 2012.

The prior period balance related to inventories has been reclassified to conform to the current year presentation.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ materially from these estimates. On an ongoing basis, we evaluate our estimates, including those related to the accounts receivable and sales allowances, fair values of financial instruments, inventory valuation, intangible assets and goodwill, useful lives of intangible assets and property and equipment, fair values of stock-based awards, income taxes, and contingent liabilities, among others. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

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Revenue Recognition

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2012	2011	2012
Google:				
Advertising revenues:				
Google websites	$ 6,740	$ 7,727	$ 18,851	$ 22,581
Google Network Members websites	2,595	3,133	7,506	9,029
Total advertising revenues	9,335	10,860	26,357	31,610
Other revenues	385	666	965	1,525
Total Google revenues (advertising and other)	9,720	11,526	27,322	33,135
Motorola:				
Total Motorola revenues (hardware and other)	0	2,575	0	3,825
Total revenues	$ 9,720	$ 14,101	$ 27,322	$ 36,960

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

Google

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

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

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

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

Motorola

Our Motorola business is comprised of two operating segments. The Mobile segment is focused on mobile wireless devices and related products and services. The Home segment is focused on technologies and devices that provide video entertainment services to consumers by enabling subscribers to access a variety of interactive digital television services.

For hardware product sales, revenue recognition generally occurs when products have been shipped, risk of loss has transferred to the customer, objective evidence exists that customer acceptance provisions have been met, no significant obligations remain and allowances for discounts, price protection, returns and customer incentives can be reasonably and reliably estimated. Recorded revenues are reduced by these allowances.

Where these allowances cannot be reasonably and reliably estimated, we recognize revenue at the time the product sells through the distribution channel to the end customer.

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For arrangements that include multiple deliverables, primarily for products that contain software essential to the hardware products functionality and services, we allocate revenue to each unit of accounting based on their relative selling prices. In such circumstances, we use a hierarchy to determine the selling prices to be used for allocating revenue: (i) vendor-specific objective evidence of fair value (VSOE), (ii) third-party evidence of selling price, and (iii) best estimate of the selling price (ESP). VSOE generally exists only when we sell the deliverable separately and is the price actually charged by us for that deliverable. ESPs reflect our best estimates of what the selling prices of elements would be if they were sold regularly on a stand-alone basis.

Inventories

Inventories are stated at the lower of cost or market, computed using the first-in, first-out method.

Note 2. Net Income Per Share of Class A and Class B Common Stock

The following table sets forth the computation of basic and diluted net income per share of Class A and Class B common stock (in millions, except share amounts which are reflected in thousands and per share amounts):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2011		2012		2011		2012	
	(unaudited)							
	Class A	Class B	Class A	Class B	Class A	Class B	Class A	Class B
Basic net income per share:								
Numerator								
Allocation of undistributed earnings	$ 2,151	$ 578	$ 1,746	$ 430	$ 5,521	$ 1,512	$ 6,269	$ 1,582
Denominator								
Weighted-average common shares outstanding	254,709	68,446	263,086	64,699	252,995	69,309	260,666	65,786
Number of shares used in per share computation	254,709	68,446	263,086	64,699	252,995	69,309	260,666	65,786
Basic net income per share	$ 8.44	$ 8.44	$ 6.64	$ 6.64	$ 21.82	$ 21.82	$ 24.05	$ 24.05
Diluted net income per share:								
Numerator								
Allocation of undistributed earnings for basic computation	$ 2,151	$ 578	$ 1,746	$ 430	$ 5,521	$ 1,512	$ 6,269	$ 1,582
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares	578	0	430	0	1,512	0	1,582	0
Reallocation of undistributed earnings to Class B shares	0	(7)	0	(7)	0	(19)	0	(23)
Allocation of undistributed earnings	$ 2,729	$ 571	$ 2,176	$ 423	$ 7,033	$ 1,493	$ 7,851	$ 1,559
Denominator								
Number of shares used in basic computation	254,709	68,446	263,086	64,699	252,995	69,309	260,666	65,786
Weighted-average effect of dilutive securities								
Add:								
Conversion of Class B to Class A common shares outstanding	68,446	0	64,699	0	69,309	0	65,786	0
Employee stock options, including warrants issued under Transferable Stock Option program	2,839	43	3,015	36	2,939	47	2,943	39
Restricted stock units	1,445	0	2,514	0	1,376	0	2,019	0
Number of shares used in per share computation	327,439	68,489	333,314	64,735	326,619	69,356	331,414	65,825
Diluted net income per share	$ 8.33	$ 8.33	$ 6.53	$ 6.53	$ 21.53	$ 21.53	$ 23.69	$ 23.69

The net income per share amounts are the same for Class A and Class B common stock because the holders of each class are legally entitled to equal per share distributions whether through dividends or in liquidation.

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Note 3. Cash and Investments

Cash, cash equivalents, and marketable securities consisted of the following (in millions):

	As of December 31, 2011	As of September 30, 2012 (unaudited)
Cash and cash equivalents:		
Cash	$ 4,712	$ 6,224
Cash equivalents:		
Time deposits	534	360
Money market and other funds [1]	4,462	8,926
U.S. government agencies	275	0
U.S. government notes	0	750
Total cash and cash equivalents	9,983	16,260
Marketable securities:		
Time deposits	495	507
U.S. government agencies	6,226	1,616
U.S. government notes	11,579	9,179
Foreign government bonds	1,629	1,898
Municipal securities	1,794	1,596
Corporate debt securities	6,112	7,160
Agency residential mortgage-backed securities	6,501	6,754
Asset backed securities	0	729
Marketable equity securities	307	25
Total marketable securities	34,643	29,464
Total cash, cash equivalents, and marketable securities	$ 44,626	$ 45,724

(1) The balances at December 31, 2011 and September 30, 2012 included $1.3 billion and $1.1 billion of cash collateral received in connection with our securities lending program, which was invested in reverse repurchase agreements maturing within three months. See below for further discussion on this program.

The following tables summarize unrealized gains and losses related to our investments in marketable securities designated as available-for-sale (in millions):

	As of December 31, 2011			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Time deposits	$ 495	$ 0	$ 0	$ 495
U.S. government agencies	6,211	15	0	6,226
U.S. government notes	11,475	104	0	11,579
Foreign government bonds	1,608	32	(11)	1,629
Municipal securities	1,775	19	0	1,794
Corporate debt securities	6,023	187	(98)	6,112
Agency residential mortgage-backed securities	6,359	147	(5)	6,501

Marketable equity securities	228	79	0	307
Total	$ 34,174	$ 583	$ (114)	$ 34,643

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	As of September 30, 2012			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(unaudited)		
Time deposits	$ 507	$ 0	$ 0	$ 507
U.S. government agencies	1,592	24	0	1,616
U.S. government notes	9,091	88	0	9,179
Foreign government bonds	1,825	77	(4)	1,898
Municipal securities	1,568	28	0	1,596
Corporate debt securities	6,755	420	(15)	7,160
Agency residential mortgage-backed securities	6,576	180	(2)	6,754
Asset backed securities	728	1	0	729
Marketable equity securities	38	4	(17)	25
Total	$ 28,680	$ 822	$ (38)	$ 29,464

Gross unrealized gains and losses on cash equivalents were not material at December 31, 2011 and September 30, 2012.

We recognized gross realized gains of $140 million and $274 million for the three and nine months ended September 30, 2011 and $82 million and $290 million for the three and nine months ended September 30, 2012. We recognized gross realized losses of $31 million and $63 million for the three and nine months ended September 30, 2011 and $46 million and $79 million for the three and nine months ended September 30, 2012. We determine realized gains and losses on the sale of marketable securities on a specific identification method, and we reflect such gains and losses as a component of interest and other income, net, in the accompanying Consolidated Statements of Income.

The following table summarizes the estimated fair value of our investments in marketable securities, excluding marketable equity securities, designated as available-for-sale and classified by the contractual maturity date of the securities (in millions):

	As of September 30, 2012 (unaudited)
Due in 1 year	$ 3,407
Due in 1 year through 5 years	11,051
Due in 5 years through 10 years	6,645
Due after 10 years	8,336
Total	$ 29,439

The following tables present gross unrealized losses and fair values for those investments that were in an unrealized loss position as of December 31, 2011 and September 30, 2012, aggregated by investment category and the length of time that individual securities have been in a continuous loss position (in millions):

	As of December 31, 2011					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Foreign government bonds	$ 302	$ (11)	$ 6	$ 0	$ 308	$ (11)
Corporate debt securities	2,160	(97)	17	(1)	2,177	(98)
Agency residential mortgage-backed securities	716	(3)	19	(2)	735	(5)
Total	$ 3,178	$ (111)	$ 42	$ (3)	$ 3,220	$ (114)

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	As of September 30, 2012					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
			(unaudited)			
Foreign government bonds	$ 405	$ (2)	$ 18	$ (2)	$ 423	$ (4)
Corporate debt securities	532	(9)	123	(6)	655	(15)
Agency residential mortgage-backed securities	507	(2)	0	0	507	(2)
Marketable equity securities	13	(17)	0	0	13	(17)
Total	$ 1,457	$ (30)	$ 141	$ (8)	$ 1,598	$ (38)

Securities Lending Program

From time to time, we enter into securities lending agreements with financial institutions to enhance investment income. We loan selected securities which are secured by collateral in the form of cash or securities. Cash collateral is invested in reverse repurchase agreements. We classify loaned securities as cash equivalents or marketable securities in the accompanying Consolidated Balance Sheets. We record the cash collateral as an asset with a corresponding liability. We classify reverse repurchase agreements maturing within three months as cash equivalents and those longer than three months as receivable under reverse repurchase agreements in the accompanying Consolidated Balance Sheets. For lending agreements collateralized by securities, we do not record an asset or liability as we are not permitted to sell or repledge the associated collateral.

Note 4. Debt and Credit Facility

Short-Term Debt

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. At December 31, 2011 and September 30, 2012, we had $750 million and $2.7 billion of outstanding commercial paper recorded as short-term debt with weighted-average interest rate of 0.1%.

We have a secured promissory note in the amount of $468 million with an interest rate of 1.0% maturing in December 2012. Proceeds were used for the acquisition of an office building in New York City. As of December 31, 2011 and September 30, 2012, the outstanding balance was $468 million.

The estimated fair value of the short-term debt approximated its carrying value at December 31, 2011 and September 30, 2012.

Long-Term Debt

In May 2011, we issued $3.0 billion of unsecured senior notes in three tranches as described in the table below (collectively, the Notes) (in millions):

	Outstanding Balance as of September 30, 2012 (unaudited)
1.25% Notes due on May 19, 2014	$ 1,000
2.125% Notes due on May 19, 2016	1,000
3.625% Notes due on May 19, 2021	1,000
Unamortized discount for the Notes above	(12)
Total	$ 2,988

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The effective interest yields of the 2014, 2016, and 2021 Notes were 1.258%, 2.241%, and 3.734%. Interest on the Notes is payable semi-annually in arrears on May 19 and November 19 of each year. We may redeem the Notes at any time in whole or from time to time in part at specified redemption prices. We are not subject to any financial covenants under the Notes. We used the net proceeds from the issuance of the Notes to repay a portion of our outstanding commercial paper and for general corporate purposes. The total estimated fair value of the Notes was approximately $3.2 billion, which is based on quoted prices for our publicly-traded debt as of September 30, 2012.

Credit Facility

In conjunction with the commercial paper program, we have a $3.0 billion revolving credit facility expiring in July 2016. The interest rate for the credit facility is determined based on a formula using certain market rates. At December 31, 2011 and September 30, 2012, we were in compliance with the financial covenant in the credit facility and no amounts were outstanding.

Note 5. Derivative Financial Instruments

We enter into foreign currency contracts with financial institutions to reduce the risk that our cash flows and earnings will be adversely affected by foreign currency exchange rate fluctuations. We use certain interest rate derivative contracts to hedge interest rate exposures on our fixed income securities and our anticipated debt issuance. Our program is not designated for trading or speculative purposes.

We recognize derivative instruments as either assets or liabilities in the accompanying Consolidated Balance Sheets at fair value. We record changes in the fair value (i.e., gains or losses) of the derivatives in the accompanying Consolidated Statements of Income as interest and other income, net, as part of revenues, or to accumulated other comprehensive income (AOCI) in the accompanying Consolidated Balance Sheets.

Cash Flow Hedges

We use foreign currency options designated as cash flow hedges to hedge certain forecasted revenue transactions denominated in currencies other than the U.S. dollar. The notional principal of foreign exchange contracts to purchase U.S. dollars with Euros was 2.8 billion (or approximately $3.8 billion) and 4.6 billion (or approximately $5.9 billion) at December 31, 2011 and September 30, 2012; the notional principal of foreign exchange contracts to purchase U.S. dollars with British pounds was £1.4 billion (or approximately $2.2 billion) and £1.9 billion (or approximately $3.0 billion) at December 31, 2011 and September 30, 2012; and the notional principal of foreign exchange contracts to purchase U.S. dollars with Canadian dollars was C$504 million (or approximately $490 million) and C$656 million (or approximately $644 million) at December 31, 2011 and September 30, 2012. These foreign exchange contracts have maturities of 36 months or less.

During the second quarter of 2012, we began to hedge the variability of forecasted interest payments on an anticipated debt issuance using forward-starting interest swaps. The total notional amount of these forward-starting interest swaps was $1.0 billion as of September 30, 2012 with terms calling for us to receive interest at a variable rate and to pay interest at a fixed rate. These forward-starting interest swaps effectively fix the benchmark interest rate on an anticipated debt issuance of $1.0 billion in 2014, and they will be terminated upon issuance of the debt.

We initially report any gain or loss on the effective portion of a cash flow hedge as a component of AOCI and subsequently reclassify to revenues or interest expense when the hedged transactions are recorded. If the hedged transactions become probable of not occurring, the corresponding amounts in AOCI would be reclassified to interest and other income, net. Further, we exclude the change in the time value of the options from our assessment of hedge effectiveness. We record the premium paid or time value of an option on the date of purchase as an asset. Thereafter, we recognize any change to this time value in interest and other income, net.

At September 30, 2012, the effective portion of our cash flow hedges before tax effect was $76 million, of which $66 million is expected to be reclassified from AOCI to earnings within the next 12 months.

Fair Value Hedges

We use forward contracts designated as fair value hedges to hedge foreign currency risks for our investments denominated in currencies other than the U.S. dollar. Gains and losses on these contracts are recognized in interest and other income, net, along with the offsetting losses and gains of the related hedged items. We exclude changes in the time value for forward contracts from the assessment of hedge effectiveness and recognize them in interest and other income, net. The notional principal of foreign exchange contracts to purchase U.S. dollars with foreign currencies was $1.0 billion

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and $1.1 billion at December 31, 2011 and September 30, 2012. The notional principal of foreign exchange contracts to sell U.S. dollars with foreign currencies was $51 million at September 30, 2012 and no such contracts were outstanding at December 31, 2011.

Other Derivatives

Other derivatives not designated as hedging instruments consist of forward and option contracts that we use to hedge intercompany transactions and other monetary assets or liabilities denominated in currencies other than the local currency of a subsidiary. We recognize gains and losses on these contracts as well as the related costs in interest and other income, net, along with the losses and gains of the related hedged items. The notional principal of foreign exchange contracts to purchase U.S. dollars with foreign currencies was $2.3 billion and $3.1 billion at December 31, 2011 and September 30, 2012. The notional principal of foreign exchange contracts to sell U.S. dollars for foreign currencies was $472 million and $438 million at December 31, 2011 and September 30, 2012. The notional principal of foreign exchange contracts to purchase Euros with other foreign currencies was 711 million (or approximately $929 million) and 930 million (or approximately $1.2 billion) at December 31, 2011 and September 30, 2012. The notional principal of foreign exchange contracts to sell Euros for other foreign currencies was 17 million (or approximately $22 million) at September 30, 2012 and no such contracts were outstanding at December 31, 2011.

We also use exchange-traded interest rate futures contracts and To Be Announced (TBA) forward purchase commitments of mortgage-backed assets to hedge interest rate risks on certain fixed income securities. The TBA contracts meet the definition of derivative instruments in cases where physical delivery of the assets is not taken at the earliest available delivery date. Our interest rate futures and TBA contracts (together interest rate contracts) are not designated as hedging instruments. We recognize gains and losses on these contracts as well as the related costs in interest and other income, net. The gains and losses are generally economically offset by unrealized gains and losses in the underlying available-for-sale securities, which are recorded as a component of AOCI until the securities are sold or other-than-temporarily impaired, at which time the amounts are moved from AOCI into interest and other income, net. The total notional amounts of interest rate contracts outstanding were $100 million at both December 31, 2011 and September 30, 2012.

The fair values of our outstanding derivative instruments were as follows (in millions):

		Fair Value of Derivative Instruments	
	Balance Sheet Location	**As of December 31, 2011**	**As of September 30, 2012 (unaudited)**
Derivative Assets			
Derivatives designated as hedging instruments:			
Foreign exchange contracts	Prepaid revenue share, expenses and other assets, current and non-current	$ 333	$ 239
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Prepaid revenue share, expenses and other assets, current	4	2
Total		$ 337	$ 241
Derivative Liabilities			
Derivatives designated as hedging instruments:			
Foreign exchange contracts	Accrued expenses and other current liabilities	$ 5	$ 0
Interest rate contracts	Other long-term liabilities	0	8
		$ 5	$ 8
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Accrued expenses and other current liabilities	1	0

Total	$ 6	$ 8

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The effect of derivative instruments in cash flow hedging relationships on income and AOCI is summarized below (in millions):

Derivatives in Cash Flow Hedging Relationship	Gains (Losses) Recognized in OCI on Derivatives Before Tax Effect (Effective Portion)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2012	2011	2012
	(unaudited)			
Foreign exchange contracts	$ 61	$ (110)	$ (54)	$ 110
Interest rate contracts	0	(8)	0	(8)
Total	$ 61	$ (118)	$ (54)	$ 102

Derivatives in Cash Flow Hedging Relationship		Gains Reclassified from AOCI into Income (Effective Portion)			
		Three Months Ended September 30,		Nine Months Ended September 30,	
	Location	2011	2012	2011	2012
		(unaudited)			
Foreign exchange contracts	Revenues	$ 1	$ 62	$ 19	$ 180

Derivatives in Cash Flow Hedging Relationship		Gains (Losses) Recognized in Income on Derivatives (Amount Excluded from Effectiveness Testing and Ineffective Portion)[1]			
		Three Months Ended September 30,		Nine Months Ended September 30,	
	Location	2011	2012	2011	2012
		(unaudited)			
Foreign exchange contracts	Interest and other income, net	$ (18)	$ (124)	$ (189)	$ (370)

(1) Gains (losses) related to the ineffective portion of the hedges were not material in all periods presented.

The effect of derivative instruments in fair value hedging relationship on income is summarized below (in millions):

Derivatives in Fair Value Hedging Relationship		Gains (Losses) Recognized in Income on Derivatives[2]			
		Three Months Ended September 30,		Nine Months Ended September 30,	
	Location	2011	2012	2011	2012
		(unaudited)			
Foreign exchange contracts	Interest and other income, net	$ 51	$ (38)	$ (8)	$ (22)
Hedged item	Interest and other income, net	(55)	36	(2)	15
Total		$ (4)	$ (2)	$ (10)	$ (7)

(2) Losses related to the amount excluded from effectiveness testing of the hedges were $4 million and $10 million for the three and nine months ended September 30, 2011, and $2 million and $7 million for the three and nine months ended September 30, 2012.

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The effect of derivative instruments not designated as hedging instruments on income is summarized below (in millions):

Derivatives not Designated as Hedging Instruments	Gains (Losses) Recognized in Income on Derivatives				
		Three Months Ended September 30,		Nine Months Ended September 30,	
	Location	2011	2012	2011	2012
		(unaudited)			
Foreign exchange contracts	Interest and other income, net	$ 40	$ (82)	$ 41	$ (107)
Interest rate contracts	Interest and other income, net	(10)	0	(19)	(5)
Total		$ 30	$ (82)	$ 22	$ (112)

Note 6. Fair Value Measurements

We measure our cash equivalents, marketable securities, auction rate securities (ARS), and foreign currency and interest rate derivative contracts at fair value. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Include inputs that are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant inputs are observable in the market or can be derived from observable market data. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, foreign exchange rates, and credit ratings.

Level 3 - Unobservable inputs that are supported by little or no market activities.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

We classify our cash equivalents and marketable securities within Level 1 or Level 2. This is because we value our cash equivalents and marketable securities using quoted market prices or alternative pricing sources and models utilizing market observable inputs. We classify our investments in ARS within Level 3 because they are valued using valuation models with significant unobservable marketable inputs. We classify our foreign currency and interest rate derivative contracts primarily within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments.

Assets and liabilities measured at fair value on a recurring basis are summarized below (in millions):

		Fair Value Measurement at Reporting Date Using		
Description	As of December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash equivalents:				
Time deposits	$ 534	$ 0	$ 534	$ 0
Money market and other funds	4,462	3,202	1,260[(1)]	0

U.S. government agencies	275	0	275	0
Marketable securities:				
Time deposits	495	0	495	0
U.S. government agencies	6,226	0	6,226	0
U.S. government notes	11,579	11,579	0	0
Foreign government bonds	1,629	0	1,629	0
Municipal securities	1,794	0	1,794	0
Corporate debt securities	6,112	0	6,112	0
Agency residential mortgage-backed securities	6,501	0	6,501	0

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Description	As of December 31, 2011	Fair Value Measurement at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable equity securities	307	307	0	0
Derivative contracts	337	0	337	0
Auction rate securities	118	0	0	118
Total	$ 40,369	$ 15,088	$ 25,163	$ 118
Liabilities				
Derivative contracts	$ 6	$ 0	$ 6	$ 0
Total	$ 6	$ 0	$ 6	$ 0

(1) This balance represents cash collateral received in connection with our securities lending program, which was invested in reverse repurchase agreements maturing within three months.

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Description	As of September 30, 2012	Fair Value Measurement at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(unaudited)		
Assets				
Cash equivalents:				
Time deposits	$ 360	$ 0	$ 360	$ 0
Money market and other funds	8,926	7,796	1,130[(1)]	0
U.S. government notes	750	750	0	0
Marketable securities:				
Time deposits	507	0	507	0
U.S. government agencies	1,616	0	1,616	0
U.S. government notes	9,179	9,179	0	0
Foreign government bonds	1,898	0	1,898	0
Municipal securities	1,596	0	1,596	0
Corporate debt securities	7,160	0	7,160	0
Agency residential mortgage-backed securities	6,754	0	6,754	0
Asset backed securities	729	0	729	0
Marketable equity securities	25	25	0	0
Derivative contracts	241	0	241	0
Auction rate securities	80	0	0	80
Total	$ 39,821	$ 17,750	$ 21,991	$ 80
Liabilities				
Derivative contracts	$ 8	$ 0	$ 8	$ 0
Total	$ 8	$ 0	$ 8	$ 0

(1) This balance represents cash collateral received in connection with our securities lending program, which was invested in reverse repurchase agreements maturing within three months.

Note 7. Balance Sheet Components

Inventories

Inventories consisted of the following (in millions):

	As of December 31, 2011	As of September 30, 2012 (unaudited)
Raw materials and work in process	$ 0	$ 132
Finished goods	35	486
Inventories	$ 35	$ 618

Property and Equipment

Property and equipment consisted of the following (in millions):

	As of December 31, 2011	As of September 30, 2012 (unaudited)
Information technology assets	$ 6,060	$ 7,324
Land and buildings	5,228	6,127
Construction in progress	2,128	2,233
Leasehold improvements	919	1,284
Furniture and fixtures	65	70
Total	14,400	17,038
Less: accumulated depreciation and amortization	4,797	5,637
Property and equipment, net	$ 9,603	$ 11,401

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Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income were as follows (in millions):

	As of December 31, 2011	As of September 30, 2012 (unaudited)
Foreign currency translation adjustment	$ (148)	$ (246)
Net unrealized gains on available-for-sale investments, net of taxes	327	566
Net unrealized gains on cash flow hedges, net of taxes	97	48
Accumulated other comprehensive income	$ 276	$ 368

Note 8. Acquisitions

On May 22, 2012, we completed our acquisition of Motorola, a provider of innovative technologies, products and services that enable a range of mobile and wireline digital communication, information and entertainment experiences. The acquisition is expected to protect and advance our Android ecosystem and enhance competition in mobile computing. Under the transaction, we acquired all outstanding common shares of Motorola for $40 per share and all vested Motorola stock options and restricted stock units, for a total purchase price of approximately $12.4 billion in cash. In addition, we assumed $401 million of unvested Motorola stock options and restricted stock units, which will be recorded as stock-based compensation expense over the remaining service periods. Transaction costs were approximately $50 million, which were recorded as general and administrative expense as incurred.

The fair value of assets acquired and liabilities assumed was based upon a preliminary valuation and our estimates and assumptions are subject to change within the measurement period. The primary areas of the purchase price that are not yet finalized are related to certain legal matters, income taxes, and residual goodwill. Of the $12.4 billion total purchase price, $2.9 billion was cash acquired, $5.5 billion was attributed to patents and developed technology, $2.5 billion to goodwill, $720 million to customer relationships, and $831 million to other net assets acquired.

The goodwill of $2.5 billion is primarily attributed to the synergies expected to arise after the acquisition. Goodwill is not expected to be deductible for tax purposes.

Supplemental information on an unaudited pro forma basis, as if the Motorola acquisition had been consummated on January 1, 2011, is presented as follows (in millions, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2012	2011	2012
	(unaudited)			
Revenues	$ 12,928	$ 14,101	$ 36,750	$ 41,730
Net income	$ 2,582	$ 2,198	$ 6,261	$ 7,688
Net income per share of Class A and Class B common stock diluted	$ 7.87	$ 6.60	$ 19.14	$ 23.18

These pro forma results are based on estimates and assumptions, which we believe are reasonable. They are not necessarily indicative of our consolidated results of operations in future periods or the results that actually would have been realized had we been a combined company during the periods presented. The pro forma results include adjustments primarily related to amortization of acquired intangible assets, severance and benefit arrangements in connection with the acquisition, and stock-based compensation expenses for assumed unvested stock options and restricted stock units.

During the nine months ended September 30, 2012, we completed 39 other acquisitions and purchases of intangible assets for a total cash consideration of approximately $1.1 billion, of which $693 million was attributed to goodwill, $436 million to acquired intangible assets, and $31 million to net liabilities assumed. These acquisitions generally enhance the breadth and depth of our expertise in engineering and other functional areas, our technologies, and our product offerings. The amount of goodwill expected to be deductible for tax purposes is approximately $5 million.

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Pro forma results of operations for these acquisitions have not been presented because they are not material to the consolidated results of operations, either individually or in aggregate.

For all acquisitions completed during the nine months ended September 30, 2012, patents and developed technology have a weighted-average useful life of 8.9 years, customer relationships have a weighted-average useful life of 7.4 years and trade names and other have a weighted-average useful life of 9.3 years.

Note 9. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the nine months ended September 30, 2012 were as follows (in millions, unaudited):

Balance as of December 31, 2011	$ 7,346
Goodwill acquired	3,183
Goodwill adjustment	(44)
Balance as of September 30, 2012	$ 10,485

As a result of the acquisition of Motorola, we have three operating segments: Google, Mobile, and Home. Amounts of goodwill allocated to the Mobile and Home segments were not material. See Note 15 for further discussion of segment information.

Information regarding our acquisition-related intangible assets is as follows (in millions):

	As of December 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Patents and developed technology	$ 1,451	$ 698	$ 753
Customer relationships	1,288	573	715
Trade names and other	359	249	110
Total	$ 3,098	$ 1,520	$ 1,578

	As of September 30, 2012		
	Gross Carrying Amount	Accumulated Amortization (unaudited)	Net Carrying Value
Patents and developed technology	$ 7,283	$ 1,097	$ 6,186
Customer relationships	2,061	767	1,294
Trade names and other	562	288	274
Total	$ 9,906	$ 2,152	$ 7,754

Amortization expense of acquisition-related intangible assets was $126 million and $327 million for the three and nine months ended September 30, 2011 and $317 million and $634 million for the three and nine months ended September 30, 2012. As of September 30, 2012, expected amortization expense for acquisition-related intangible assets for each of the next five years and thereafter was as follows (in millions, unaudited):

Remainder of 2012	$ 317
2013	1,177
2014	1,104
2015	946
2016	877
2017	820
Thereafter	2,513
	$ 7,754

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Note 10. Restructuring Charges

Subsequent to our acquisition of Motorola in May 2012, we initiated a restructuring plan primarily in our Mobile segment to reduce workforce, reorganize management structure, close or consolidate certain facilities, as well as simplify our mobile product portfolio. These changes are designed to return Motorola s Mobile segment to profitability. For the nine months ended September 30, 2012, activities related to restructuring charges were summarized as below (in millions, unaudited):

	Severance and Other Charges
Balance as of December 31, 2011	$ 0
Charges	454
Cash payments	(98)
Non-cash items[1]	(143)
Balance as of September 30, 2012	$ 213

[1] Non-cash items were primarily related to restricted stock units and stock options.

For the three and nine months ended September 30, 2012, restructuring charges were included in Costs and Expenses as follows (in millions, unaudited):

	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012
Cost of revenues Motorola	$ 56	$ 65
Research and development	116	128
Sales and marketing	100	128
General and administrative	25	133
Total charges	$ 297	$ 454

Note 11. Interest and Other Income, Net

The components of interest and other income, net, were as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2012	2011	2012
	(unaudited)			
Interest income	$ 211	$ 172	$ 613	$ 534
Interest expense	(21)	(21)	(38)	(63)
Realized gains on available-for-sale investments, net	109	36	211	211
Foreign currency exchange losses, net	(24)	(147)	(224)	(439)
Gain on divestiture of business	0	0	0	188
Other	27	23	40	42
Interest and other income, net	$ 302	$ 63	$ 602	$ 473

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Note 12. Contingencies

Legal Matters

Antitrust Investigations

On June 23, 2011, we received a Civil Investigative Demand (CID) from the U.S. Federal Trade Commission s (FTC) Bureau of Competition and a subpoena from the FTC s Bureau of Consumer Protection relating to a review by the FTC of our business practices, including search and advertising. State attorneys general from the states of Texas, Ohio, and Mississippi have issued similar CIDs. We are cooperating with the FTC and the state attorneys general and are responding to their information requests on an ongoing basis.

The European Commission s (EC) Directorate General for Competition has also opened an investigation into various antitrust-related complaints against us. On February 10, 2010, we received notification from the EC about three antitrust complaints filed by Ciao, Ejustice, and Foundem, respectively. On November 30, 2010, the EC formally opened proceedings against us. Since November 2010, 1plusV, parent company of Ejustice, and VfT, an association of business listings providers in Germany, have filed similar complaints against us. On March 31, 2011, Microsoft Corporation submitted a similar complaint to the EC against us. On the same day, the EC notified us of additional complaints filed by Elfvoetbal, Hotmaps, Interactive Lab, and nnpt.it, and on August 30, 2011 of a complaint by dealdujour.pro. In addition, in December 2011, the Spanish Association of Daily Newspaper Publishers also submitted a complaint to the EC against us. In January 2012, Twenga brought a complaint against us and, in February 2012, the German newspaper associations, Bundesverband Deutscher Zeitungsverleger (BDZV) and Verband Deutscher Zeitschriftenverleger (VDZ), also brought a complaint against us with the EC. In March and April of 2012, the EC asked us to comment on Expedia s, Tripadvisor s, Odigeo s and Streetmap s complaints against us. In August 2012, Nextag submitted its complaint, echoing similar issues. We believe we have adequately responded to all of the allegations made against us. We are cooperating with the EC and are pursuing a potential resolution.

In June 2012, we received a CID and a subpoena duces tecum from the FTC s Bureau of Competition seeking documents and information broadly related to Motorola s licensing practices for standards-essential patents and use of standards-essential patents in litigation. We are cooperating with the FTC and responding to the information requests on an ongoing basis. The EC has also opened an investigation into Motorola s licensing practices for standards-essential patents and use of standards-essential patents in litigation on the basis of complaints brought by Microsoft and Apple. We are cooperating with the EC and responding to the information requests on an ongoing basis.

The Comision Nacional de Defensa de la Competencia in Argentina, the Competition Commission of India, and the Korea Fair Trade Commission in South Korea have also opened investigations into certain business practices.

EPA Investigation

In February 2009, we learned of a U.S. Environmental Protection Agency (EPA) investigation into an alleged release of refrigerant at one of our smaller data center facilities, which we acquired from DoubleClick, and the accuracy of related statements and records. We are cooperating with the EPA and have provided documents and other materials.

Patent and Intellectual Property Claims

We have had patent, copyright, and trademark infringement lawsuits filed against us claiming that certain of our products, services, and technologies, including Android, Google Search, Google AdWords, Google AdSense, Google Books, Google News, Google Image Search, Google Chrome, Google Talk, Google Voice, Motorola devices and YouTube, infringe the intellectual property rights of others. Adverse results in these lawsuits may include awards of substantial monetary damages, costly royalty or licensing agreements, 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. In addition, the U.S. International Trade Commission (ITC) has increasingly become an important forum to litigate intellectual property disputes because an ultimate loss for a company or its suppliers in an ITC action could result in a prohibition on importing infringing products into the U.S. Since the U.S. is an important market, a prohibition on importation could have an adverse effect on us, including preventing us from importing many important products into the U.S. or necessitating workarounds that may limit certain features of our products.

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Furthermore, many of our agreements with our customers and partners require us to indemnify them for certain intellectual property infringement claims against them, which would 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. Our customers and partners may 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.

Other

We are also regularly subject to claims, suits, government investigations, and other proceedings involving competition and antitrust (such as the pending investigations by the FTC and the EC described above), intellectual property, privacy, tax, labor and employment, commercial disputes, content generated by our users, goods and services offered by advertisers or publishers using our platforms, personal injury, consumer protection, and other matters. Such claims, suits, government investigations, and other proceedings could result in fines, civil or criminal penalties, or other adverse consequences.

Certain of our outstanding legal matters include speculative claims for substantial or indeterminate amounts of damages. We record a liability when we believe that it is both probable that a loss has been incurred, and the amount can be reasonably estimated. We evaluate, on a monthly basis, developments in our legal matters that could affect the amount of liability that has been previously accrued, and make adjustments as appropriate. Significant judgment is required to determine both likelihood of there being and the estimated amount of a loss related to such matters.

With respect to our outstanding legal matters, based on our current knowledge, we believe that the amount or range of reasonably possible loss will not, either individually or in the aggregate, have a material adverse effect on our business, consolidated financial position, results of operations, or cash flows. However, the outcome of such legal matters is inherently unpredictable and subject to significant uncertainties.

We expense legal fees in the period in which they are incurred.

Income Taxes

We are under audit by the Internal Revenue Service (IRS) and various other tax authorities. We have reserved for potential adjustments to our provision for income taxes that may result from examinations by, or any negotiated agreements with, these tax authorities, and we believe that the final outcome of these examinations or agreements will not have a material effect on our results of operations. If events occur which indicate payment of these amounts is unnecessary, the reversal of the liabilities would result in the recognition of tax benefits in the period we determine the liabilities are no longer necessary. If our estimates of the federal, state, and foreign income tax liabilities are less than the ultimate assessment, a further charge to expense would result.

Note 13. Stockholders Equity

The following table presents the weighted-average assumptions used to estimate the fair values of the stock options granted in the period presented:

	Three Months Ended September 30,	Nine Months Ended September 30,	
	2011	2011	2012
		(unaudited)	
Risk-free interest rate	1.7%	2.3%	1.0%
Expected volatility	33%	33%	29%
Expected life (in years)	6.2	5.9	5.3
Dividend yield	0	0	0
Weighted-average estimated fair value of options granted during the period	$210.06	$ 210.24	$ 193.80

There were no stock options granted during the three months ended September 30, 2012.

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The following table summarizes the activities for our stock options for the nine months ended September 30, 2012:

	Options Outstanding			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions) [1]
		(unaudited)		
Balance at December 31, 2011	9,807,252	$ 357.92		
Granted [2]	1,374,577	$ 578.12		
Exercised	(1,929,716)	$ 307.57		
Forfeited/canceled	(219,673)	$ 462.80		