

EXHIBIT A

S-1/A 1 ds1a.htm AMENDMENT NO. 2 TO FORM S-1

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As filed with the Securities and Exchange Commission on June 21, 2004

Registration No. 333-114984

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 2
TO
FORM S-1
REGISTRATION STATEMENT
Under
The Securities Act of 1933

GOOGLE INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

7375
(Primary Standard Industrial
Classification Code Number)

77-0493581
(I.R.S. Employer
Identification Number)

1600 Amphitheatre Parkway
Mountain View, CA 94043
(650) 623-4000

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

Eric Schmidt
Chief Executive Officer
Google Inc.
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(650) 623-4000

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are being offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the "Securities Act"), check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering.

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There has been a trend toward industry consolidation among our competitors, and so smaller competitors today may become larger competitors in the future. If our competitors are more successful than we are at generating traffic, our revenues may decline.

We face competition from traditional media companies, and we may not be included in the advertising budgets of large advertisers, which could harm our operating results.

In addition to Internet companies, we face competition from companies that offer traditional media advertising opportunities. Most large advertisers have set advertising budgets, a very small portion of which is allocated to Internet advertising. We expect that large advertisers will continue to focus most of their advertising efforts on traditional media. If we fail to convince these companies to spend a portion of their advertising budgets with us, or if our existing advertisers reduce the amount they spend on our programs, our operating results would be harmed.

We expect our growth rates to decline and anticipate downward pressure on our operating margin in the future.

We expect that in the future our revenue growth rate will decline and anticipate that there will be downward pressure on our operating margin. We believe our revenue growth rate will decline as a result of anticipated changes to our advertising program revenue mix, increasing competition and the inevitable decline in growth rates as our net revenues increase to higher levels. We believe our operating margin will decline as a result of increasing competition and increased expenditures for all aspects of our business as a percentage of our net revenues, including product development and sales and marketing expenses. We also expect that our operating margin may decline as a result of increases in the proportion of our net revenues generated from our Google Network members. The margin on revenue we generate from our Google Network members is generally significantly less than the margin on revenue we generate from advertising on our web sites. Additionally, the margin we earn on revenue generated from our Google Network could decrease in the future if our Google Network members require a greater portion of the advertising fees.

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 of which are outside of our control. For these reasons, 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 and annual expenses as a percentage of our net revenues may be significantly different 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 "Risk Factors" section, and the following factors, may affect our operating results:

- Our ability to continue to attract users to our web sites.
- Our ability to attract advertisers to our AdWords program.
- Our ability to attract web sites to our AdSense program.
- The mix in our net revenues between those generated on our web sites and those generated through our Google Network.
- The amount and timing of operating costs 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 investments in risky projects.

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Although our operating margin was greater in the three months ended March 31, 2004 compared to the year ended December 31, 2003, we believe that our operating margin will decline in 2004 compared to 2003. We believe the decrease in operating margin will result from an increased portion of our net revenues being generated through our AdSense program, and from an anticipated increase in costs and expenses, other than stock-based compensation, as a percentage of net revenues in 2004 compared to 2003. This expected increase in the portion of our net revenues generated through our AdSense program is a result of an anticipated increase in the portion of ad clicks that occur on Google Network member web sites compared to our Google web sites, as we increase the number of Google Network members. In other words, net revenues earned through our Google Network members under our relatively newer Google AdSense program are growing more rapidly than those earned through our Google web sites. The operating margin we realize on revenues generated from the web sites of our Google Network members through our AdSense program is significantly lower than that generated from paid clicks on our web sites. This lower operating margin arises because most of the advertiser fees from our AdSense agreements are shared with our Google Network members, leaving only a portion of these fees for us. The lower operating margin also results from the higher costs attributable to the additional sales and information systems infrastructure required to secure and manage our Google Network. The expected increase in costs and expenses, other than stock-based compensation, as a percentage of net revenues is primarily a result of building the necessary employee and systems infrastructures required to manage the anticipated growth of our company. This anticipated decline to our operating margin is expected to be partially offset by a decrease in stock-based compensation as a percentage of net revenues in 2004 compared to 2003.

We have a large and diverse base of advertisers and Google Network members. No advertiser generated more than 3% of our net revenues in either 2001, 2002, 2003 or in the three months ended March 31, 2004. In addition, no Google Network member accounted for more than 5% of our net revenues in 2002, 2003 or in the three months ended March 31, 2004. We expect our base of advertisers and Google Network members to remain large and diverse for the foreseeable future.

We have experienced and expect to continue to experience substantial growth in our operations as we seek to expand our user, advertiser and Google Network members bases and continue to expand our presence in international markets. This growth has required the continued expansion of our human resources and substantial investments in property and equipment. Our full-time employee headcount has grown from 284 at December 31, 2001, to 682 at December 31, 2002, to 1,628 at December 31, 2003 and to 1,907 at March 31, 2004. In addition, we have employed a significant number of temporary employees in the past and expect to continue to do so in the foreseeable future. Our capital expenditures have grown from \$13.1 million in 2001, to \$37.2 million in 2002, to \$176.8 million in 2003 and to \$86.0 million in the three months ended March 31, 2004. We currently expect to spend at least \$250 million on capital equipment, including information technology infrastructure, to manage our operations during 2004. In addition, we anticipate that the growth rate of our costs and expenses, other than stock-based compensation, may exceed the growth rate of our net revenues during 2004. Management of this growth will continue to require the devotion of significant employee and other resources. We may not be able to manage this growth effectively.

In early 2003, we decided to invest significant resources to begin the process of comprehensively documenting and analyzing our system of internal controls. We have identified areas of our internal controls requiring improvement, and we are in the process of designing enhanced processes and controls to address any issues identified through this review. Areas for improvement include streamlining our domestic and international billing processes, further limiting internal access to certain data systems and continuing to improve coordination across business functions. During our 2002 audit, our external auditors brought to our attention a need to increase restrictions on employee access to our advertising system and automate more of our financial processes. The auditors identified these issues together as a "reportable condition," which means that these were matters that in the auditors' judgment could adversely affect our ability to record, process, summarize and report financial data consistent with the assertions of management in our financial statements. In 2003, we devoted significant resources to remediate and improve our internal controls. Although we believe that these efforts have strengthened our internal controls and addressed the concerns that gave rise to the "reportable condition" in 2002, we are continuing to work to improve our internal controls, including in the areas of access and security. We plan