Google Inc.
Form 10-K
February 13, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
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)

(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 Exchange on Which Registered
Class A Common Stock, $0.001 par value	**The Nasdaq Stock Market LLC**
	(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
Options to purchase Class A Common Stock

Indicate by check mark if the Registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes x 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 x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x 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 x

At June 30, 2008, the aggregate market value of shares held by non-affiliates of the Registrant (based upon the closing sale price of such shares on The Nasdaq Global Select Market on June 30, 2008) was $116,684,274,176.

At January 31, 2009, there were 240,289,354 shares of the Registrant s Class A common stock outstanding and 75,004,353 shares of the Registrant s Class B common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Proxy Statement for the 2008 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, 2008.

Form 10-K

For the Fiscal Year Ended December 31, 2008

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PART I

ITEM 1. BUSINESS

Overview

Google is a global technology leader focused on improving the ways people connect with information. Our innovations in web search and advertising have made our web site a top internet property and our brand one of the most recognized in the world. We maintain a large index of web sites and other online content, which we make freely available via our search engine to anyone with an internet connection. Our automated search technology helps people obtain nearly instant access to relevant information from our vast online index.

We generate revenue primarily by delivering relevant, cost-effective online advertising. Businesses use our AdWords program to promote their products and services with targeted advertising. In addition, the thousands of third-party web sites that comprise the Google Network use our AdSense program to deliver relevant ads that generate revenue and enhance the user experience.

We were incorporated in California in September 1998 and reincorporated in Delaware in August 2003. Our headquarters are located at 1600 Amphitheatre Parkway, Mountain View, California 94043, and our telephone number is (650) 253-0000.

Our Mission

Our mission is to organize the world s information and make it universally accessible and useful. We believe that the most effective, and ultimately the most profitable, way to accomplish our mission is to put the needs of our users first. We have found that offering a high-quality user experience leads to increased traffic and strong word-of-mouth promotion. Our dedication to putting users first is reflected in three key commitments:

- We will do our best to provide the most relevant and useful search results possible, independent of financial incentives. Our search results will be objective and we do not accept payment for search result ranking or inclusion.

- We will do our best to provide the most relevant and useful advertising. Advertisements should not be an annoying interruption. If any element on a search result page is influenced by payment to us, we will make it clear to our users.

- We will never stop working to improve our user experience, our search technology and other important areas of information organization.

We believe that our user focus is the foundation of our success to date. We also believe that this focus is critical for the creation of long-term value. We do not intend to compromise our user focus for short-term economic gain.

How We Provide Value to Our Users

We serve our users by developing products that quickly and easily find, create, organize and share information. We place a premium on products that matter to many people and have the potential to improve their lives.

Some of the key benefits we offer include:

Comprehensiveness and Relevance. Our search technologies sort through a vast and growing amount of information to deliver relevant and useful search results in response to user queries. This is an area of continual development for us. When we started the company in 1998, our web index contained approximately 30 million documents. We now index billions of web pages and strive to provide the most comprehensive search experience possible. Our team continually improves our relevance algorithms to objectively determine the best answers to our users queries and to place these answers at the top of our search results. We are also constantly developing new functionality and enhancing our offerings to allow our users to more quickly and easily find information.

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Objectivity. We believe it is very important that the results users get from Google are produced with only their interests in mind. We do not accept payment for search result ranking or inclusion. We do accept fees for advertising, but the advertising is clearly marked and separated and does not influence how we generate our search results. This is similar to a newspaper, where the articles are independent of the advertising. Inclusion and frequent updating in our index are open to all sites free of charge. We believe it is important for users to have access to the best available information, not just the information that someone pays for them to see.

Global Access. We strive to provide our services to everyone in the world and the Google interface is available in 120 languages. Through Google News, we offer an automated collection of frequently updated news stories in 24 languages in 61 editions. We also offer automatic translation of content between various languages and provide localized versions of Google in many developing countries.

Ease of Use. We have always believed that the most useful and powerful search technology hides its complexity from users and gives them a simple, intuitive way to get the information they want. We have devoted significant efforts to create a streamlined and easy-to-use interface based on a clean search box set prominently on a page free of commercial clutter. We introduce new navigational or informational features when we believe they will be most useful to our users, and only after extensive usability testing and experimentation.

Pertinent, Useful Commercial Information. The search for information often involves an interest in commercial information researching a purchase, comparing products and services or actively shopping. We help people find commercial information through our search services and advertising products. We also present advertisements that are relevant to the information people seek. Our technology automatically rewards ads that users prefer and removes ads that they do not find helpful.

Multiple Access Platforms. The mobile phone is the primary way that many people around the world access the internet. We have continued to invest in improving mobile search and have introduced applications that allow users to access search, email, maps, directions and satellite imagery through their mobile devices.

Improving the Web. We want to make the web experience as good as possible for users around the world. This includes providing platforms for developers to build, deploy and run increasingly rich applications. For users, we are investing in areas to improve their experience in using web-based applications, including making browsers more stable and powerful.

Products and Services for our Users

Our product development philosophy involves rapid and continuous innovation, with frequent releases of early-stage products that we then iterate and improve. We often make products available early in their development stages by posting them on Google Labs, at test locations online or directly on Google.com. If our users find a product useful, we promote it to beta status for additional testing. Once we are satisfied that a product is of high quality and utility, we remove the beta label and make it a core Google product. Our main products and services are described below.

Google.com Search and Personalization

We are focused on building products and services on our web sites that benefit our users and let them find relevant information quickly and easily. These products and services include:

Google Web Search. In addition to providing easy access to billions of web pages, we have integrated special features into Google Web Search to help people find exactly what they are looking for on the web. The Google.com search experience also includes items like:

- Advanced Search Functionality enables users to construct more complex queries, for example by using Boolean logic or restricting results to languages, countries or web sites.

- Web Page Translation supports 41 languages and automatically translates between any two of these languages, with a total of 1,640 language translation pairs.

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Integrated Tools such as a spell checker, a calculator, a dictionary and currency and measurement converters.

Search by Number lets users do quick searches by entering shipping tracking numbers, vehicle identification numbers, product codes, telephone area codes, patent numbers, airplane registration numbers and electronic equipment identification government numbers.

Cached Links provides snapshots of web pages taken when the pages were indexed, letting users view web pages that are no longer available.

Movie, Music and Weather Information enables users to quickly and easily find movie reviews and show times, information about artists, songs and albums and weather conditions and forecasts.

News, Finance, Maps, Image, Video, Book, Blogs, and Groups Information Users are often best served by different types of results. When relevant, we also search display results from other Google products including Google News, Google Finance, Google Maps, Google Image Search, Google Video, Google Book Search, Google Blog Search, and Google Groups.

Google Image Search. Google Image Search is our searchable index of images found across the web. To extend the usefulness of Google Image Search, we offer advanced features, such as searching by image size, format and coloration and restricting searches to specific web sites or domains.

Google Book Search. Google Book Search lets users search the full text of a library-sized collection of books to discover books of interest and to learn where to buy or borrow them. Through this program, publishers can host their content and show their publications at the top of our search results. We also work closely with participating libraries to digitize all or part of their collections to create a full-text searchable online card catalog. Google Book Search links bring users to pages containing bibliographic information and several sentences of the search term in context, sample book pages, or full text, depending on author and publisher permissions and book copyright status. In October 2008, we reached a settlement agreement with the Authors Guild and the Association of American Publishers over lawsuits in the U.S. over Google Book Search. If approved by the court, millions more in-copyright books will be accessible to our users. Many books will be available for purchase even if they are out of print, expanding the market for authors and publishers to earn money from their works.

Google Scholar. Google Scholar provides a simple way to do a broad search for relevant scholarly literature including peer-reviewed papers, theses, books, abstracts, and articles. Content in Google Scholar is taken from academic publishers, professional societies, preprint repositories, universities, and other scholarly organizations.

Google Finance. Google Finance provides a simple user interface to navigate complex financial information in an intuitive manner, including linking together different data sources, such as correlating stock price movements to news events.

Google News. Google News gathers information from thousands of news sources worldwide and presents news stories in a searchable format within minutes of their publication on the web. The leading stories are presented as headlines on the user-customizable Google News home page. These headlines are selected for display entirely by a computer algorithm, without regard to political viewpoint or ideology.

Google Video. Google Video lets users upload, find, view and share video content worldwide.

Google Blog Search. Google Blog Search enables users to search the blogging universe more effectively and find out users opinions on a wide variety of subjects. The Google Blog Search index includes every blog that publishes a site feed.

iGoogle and Personalized Search. iGoogle connects users to the information that is most useful and important to them in an easy-to-use and customizable format. Users add gadgets and themes created by Google and developers to create a powerful and personalized homepage and arrange the content the way they want. iGoogle includes Personalized Search, which gives our users better search results based on what they have searched for in the past, making it easier to quickly find the information that is more relevant to them. Users can also view and manage their history of past searches and the results they have clicked on, and create bookmarks with labels and notes.

Google Product Search. Google Product Search helps users find and compare products from online stores across the web and directs users to where they can buy these products. Users can search for product information that is submitted electronically by sellers or automatically identified by Google software.

Google Custom Search. Google Custom Search allows communities of users familiar with particular topics to build customized search engines. These customized search engines allow the communities to help improve the quality of search results by labeling and annotating relevant web pages or by creating specialized, subscribed links for users to get more detailed information about a particular topic.

Google Base. Google Base lets content owners submit content that they want to share on Google web sites. Content owners can describe and assign attributes to the information they submit and Google uses this descriptive content to better target search results to what users are looking for.

Google Webmaster Tools. Google Webmaster Tools provides information to webmasters to help them enhance their understanding of how their web sites interact with the Google search engine. Content owners can submit sitemaps and geotargeting information through Google Webmaster Tools to improve search quality.

Applications

Information created by a single user becomes much more valuable when shared and combined with information from other people or places. Therefore our strategy for products we develop in this space is simple: develop tools for our users to create, share and communicate any information generated by the user, thus making the information more useful and manageable. Examples of products we have developed with this strategy in mind include:

Google Docs. Google Docs allows our users to create, view and edit documents, spreadsheets, and presentations from anywhere using a browser. These documents are useful to our users as they are accessible anywhere internet access is available, manageable as they are stored within our servers and automatically backed up, and shareable in that they allow real time editing with co-workers and friends over the internet.

Google Calendar. Google Calendar is a free online shareable calendar service that allows our users to keep track of the important events, appointments and special occasions in their lives and share this information with anyone they choose. In addition, web sites and groups with an online presence can use Google Calendar to create public calendars, which are automatically indexed and searchable on Google.

Gmail. Gmail is Google s free webmail service that comes with built-in Google search technology to allow searching of emails and over seven gigabytes of storage, allowing users to keep their important messages, files and pictures. We serve small text ads that are relevant to the messages in Gmail.

Google Groups. Google Groups is a free service that helps groups of people connect to information and people that have interest in them. Users can discuss topics by posting messages to a group, where other people can then read and respond. Google Groups now contains more than one billion messages from Usenet internet discussion groups dating back to 1981. The discussions in these groups provide a comprehensive look at evolving viewpoints, debate and advice on many subjects.

Google Reader. Google Reader is a free service that lets users subscribe to feeds and receive updates from multiple web sites in a single interface. Google Reader also allows users to share content with others, and functions with many types of media and reading-styles.

orkut. orkut enables users to search and connect to other users through networks of trusted friends. Users can create a profile, personal mailboxes, post photos and join or manage online communities.

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Blogger. Blogger is a web-based publishing tool that lets people publish to the web instantly using weblogs, or blogs. Blogs are web pages usually made up of short, informal and frequently updated posts that are arranged chronologically.

Google Sites. Google Sites allows users to easily create, update and publish content online without technical expertise, with control over who can see and update the site. Google Sites supports a variety of information such as videos, calendars, presentations, spreadsheets, discussions and texts.

YouTube. YouTube is an online community that lets users worldwide upload, share, watch, rate, and comment on videos, from user generated, niche professional, to premium videos. YouTube is also a video platform providing general purpose video resources to the web community. YouTube videos are embedded in blogs, social networks and web applications, and YouTube programming interfaces are utilized by many registered developers to create third-party products and services. In addition, YouTube offers a range of video and interactive formats for advertisers to reach their intended audience.

Client

Google Toolbar. Google Toolbar is a free application that adds a Google search box to web browsers (Internet Explorer and Firefox) and improves user web experience through features such as a pop-up blocker that blocks pop-up advertising, an autofill feature that completes web forms with information saved on a user s computer, and customizable buttons that let users search their favorite web sites and stay updated on their favorite feeds.

Google Chrome. Google Chrome is an open-source browser that combines a minimal design with technologies to make the web faster, safer, and easier to navigate.

Google Pack. Google Pack is a free collection of safe, useful software programs from Google and other companies that improve the user experience online and on the desktop. It includes programs that help users browse the web faster, remove spyware and viruses.

Picasa. Picasa is a free service that allows users to view, manage and share their photos. Picasa enables users to import, organize and edit their photos, and upload them to Picasa Web Albums where the photos can be shared with others on the internet.

Google Desktop. Google Desktop lets people perform a full-text search on the contents of their own computer, including email, files, instant messenger chats and web browser history. Users can view web pages they have visited even when they are not online. Google Desktop also includes a customizable Sidebar that includes modules for weather, stock tickers and news.

Google GEO Maps, Earth and Local

Google Earth. Google Earth lets users see and explore the world and beyond from their desktop. Users can fly virtually to a specific location and learn about that area through detailed satellite and aerial images, 3D topography, street maps and millions of data points describing the location of businesses, schools, parks and other points of interest around the globe. Google Earth includes Sky, an astronomical imagery library with images of over 100 million stars and 200 million galaxies, and Ocean, with a detailed bathymetric map of the earth s ocean floors.

Google Maps. Google Maps helps people navigate map information. Users can look up addresses, search for businesses, and get point-to-point driving directions all plotted on an interactive street map or on satellite imagery. Google Maps includes StreetView, 360-degree street-level imagery available in several regions around the world, and Google Transit, which provides up-to-date information on local transit options in many cities. Google Maps provides a comprehensive search experience by combining yellow-pages listings with ratings and reviews and other business information. In addition, Google Maps lets users create their own maps and allows developers to put their content on top of our base map data. We display relevant targeted ads for searches done through Google Maps.

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Google Sketchup and Sketchup Pro. Google Sketchup is a free tool that enables users to model buildings in 3D, and can be used as a tool for populating Google Earth with architectural content. The Pro version of this tool is sold to professional designers and includes additional features.

Google Mobile and Android

Google Mobile. Google Mobile lets people search and view both the mobile web, consisting of pages created specifically for wireless devices, and the entire Google index. Users can also access online information using Google SMS by typing a query to the Google shortcode and checking their email using Gmail Mobile. Google Mobile is available through many wireless and mobile phone services worldwide.

Google Maps for Mobile. Google Maps for Mobile is a free Java client application that lets users view maps and satellite imagery, find local businesses and get driving directions on mobile devices. Google Maps for Mobile offers many of the same functions as Google Maps, including draggable maps combined with satellite imagery. In addition, the My Location feature allows users to view their approximate location on the map.

Blogger for Mobile. With Blogger for mobile devices, users can take pictures with their camera phones and then post their pictures and text comments to their blog using MMS or email.

Google Gmail, News and Personalized Home for Mobile. Several of our services, such as Gmail, News and Personalized Home are also available as mobile applications.

GOOG-411. GOOG-411 is a free, speech-enabled application allowing users to call 1-800-GOOG-411 to search for businesses by name or category.

Android. Android is a free, open-source mobile software platform which allows developers to create applications for mobile devices and for handset manufacturers to install. Android is being developed with the Open Handset Alliance, a group of more than 45 technology and mobile companies, with the goal of providing consumers a less expensive, richer and more powerful mobile experience.

Search by Voice. Search by Voice lets users do a Google web search just by saying what they are looking for. Search results are formatted to fit phone screens. Search by Voice is currently available for the iPhone and Android phones.

Google Checkout

Google Checkout is a service for our users, advertisers and participating merchants that is intended to make online shopping faster, more convenient and more secure by providing a single login for buying online and helping users find convenient and secure places to shop when they search.

For merchants, Google Checkout is integrated with AdWords to help advertisers attract more leads, convert more leads to sales and process sales. We believe that Google Checkout s streamlined checkout process lowers shopping cart abandonment and barriers to purchase, which increases conversion of clicks to sales for participating merchants. We charge merchants who use Google Checkout 2% of the transaction amount plus $0.20 per transaction to the extent these transactions exceed 10 times the amount they spend on AdWords advertising.

Google Labs

Google Labs is our test bed for our engineers and adventurous Google users. On Google Labs, we post product prototypes and solicit feedback on how the technology could be used or improved. Current Google Labs examples include: *Picasa for Mac,* a software that allows Mac users to organize, edit, create, and share photos, *In Quotes,* a feature that allows users to find quotes from stories linked to Google News, and *Google Audio Indexing,* a new technology that allow users to find spoken words inside videos and jump to the right portion of the video where these words are spoken.

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The Technology Behind Search and Our User Products and Services

Our web search technology uses a combination of techniques to determine the importance of a web page independent of a particular search query and to determine the relevance of that page to a particular search query.

Ranking Technology. One element of our technology for ranking web pages is called PageRank. While we developed much of our ranking technology after Google was formed, PageRank was developed at Stanford University with the involvement of our founders and was therefore published as research. PageRank is a query-independent technique for determining the importance of web pages by looking at the link structure of the web. PageRank treats a link from web page A to web page B as a vote by page A in favor of page B. The PageRank of a page is the sum of the pages that link to it. The PageRank of a web page also depends on the importance (or PageRank) of the other web pages casting the votes. Votes cast by important web pages with high PageRank weigh more heavily and are more influential in deciding the PageRank of pages on the web.

Text-Matching Techniques. Our technology employs text-matching techniques that compare search queries with the content of web pages to help determine relevance. Our text-based scoring techniques do far more than count the number of times a search term appears on a web page. For example, our technology determines the proximity of individual search terms to each other on a given web page, and prioritizes results that have the search terms near each other. Many other aspects of a page s content are factored into the equation, as is the content of pages that link to the page in question. By combining query independent measures such as PageRank with our text-matching techniques, we are able to deliver search results that are relevant to what people are trying to find.

Infrastructure. We provide our products and services using our homegrown software and hardware infrastructure, which provides substantial computing resources at low cost. We currently use a combination of off-the-shelf and custom software running on clusters of commodity computers. Our considerable investment in developing this infrastructure has produced several benefits. This infrastructure simplifies the storage and processing of large amounts of data, eases the deployment and operation of large-scale global products and services, and automates much of the administration of large-scale clusters of computers. Although most of this infrastructure is not directly visible to our users, we believe it is important for providing a high-quality user experience. It enables significant improvements in the relevance of our search and advertising results by allowing us to apply superior search and retrieval algorithms that are computationally intensive. We believe the infrastructure also shortens our product development cycle and lets us pursue innovation more cost effectively.

How We Provide Value to Our Advertisers and Content Owners

Google AdWords

For advertisers seeking to market their products and services to consumers and business users over the internet, we offer Google AdWords, an auction-based advertising program that lets advertisers deliver relevant ads targeted to search queries or web content across Google sites and through the web sites of our Google Network, which is the network of online and offline third parties that use our advertising programs to deliver relevant ads with their search results and content. The Google Network is also increasingly encompassing different forms of online and offline media as well, including content providers who use our advertising programs to deliver ads in online video, television and radio broadcasts. AdWords is accessible to advertisers in 41 different interface languages.

Advertisers in our AdWords program create text-based or display ads, bid on the keywords that will trigger the display of their ads and set daily spending budgets. AdWords features an automated online signup process that lets advertisers quickly implement ad campaigns on Google properties and the web sites of our Google Network members. Ads are ranked for display in AdWords based on a combination of the maximum cost-per-click pricing set by the advertiser and click-through rates and other factors used to determine the relevance of the ads. This favors the ads that are most relevant to users, improving the experience both for the person looking for information and for the advertiser who is generating relevant ads. The AdWords program offers advertisers the following additional benefits:

Return on Investment. Many advertising dollars are spent delivering messages in an untargeted fashion, and payment for these advertisements is not tied to performance. AdWords shows ads only to people seeking information related

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to what the advertisers are selling, and advertisers choose how much they pay when a user clicks on their ad. Because we offer a simple ad format, advertisers can also avoid incurring significant costs associated with creating ads. As a result, even small advertisers find AdWords cost-effective for connecting with potential customers. In addition, advertisers can create many different ads, increasing the likelihood that an ad is suited to a user s search. Users can find advertisements for what they are seeking, and advertisers can find users who want what they are offering.

Branding. We also offer Site Targeting, a service that lets advertisers target specific web sites with text, image and Flash ads, so that they can more effectively reach specific sets of customers. In addition to targeting sites by content, advertisers can choose placements on sites based on user demographic attributes. To protect user privacy, we use only third-party opt-in panel data to map the demographics of sites in our networks. Site Targeting is an auction-based system where bidding is based on a maximum cost per impression, and Site-Targeted ads compete with keyword-targeted ads in the same auction.

Access to the Google Search and Content Network. We serve AdWords ads on Google properties, our syndicated search partners web sites, and the thousands of third-party web sites that make up the Google Network. As a result, we can offer extensive search and content inventory on which advertisers can advertise. Apart from keyword-based ads targeted to search queries and Site Targeting, we also offer advertisers an effective contextual advertising option Content Targeting that displays their ads on relevant content pages across our network of partner sites and products. As a result, AdWords advertisers can target users on Google properties and on search and content sites across the web. This gives advertisers increased exposure to people who are likely to be interested in their offerings. The Google Network significantly enhances our ability to attract interested advertisers.

Campaign Control. Google AdWords gives advertisers hands-on control over most elements of their ad campaigns. Advertisers can specify the relevant search or content topics for each of their ads. Advertisers can also manage expenditures by setting a maximum daily budget and determining how much they are willing to pay whenever a user clicks or views an ad. Other features that make it easy to set up and manage ad campaigns include:

Campaign management. Advertisers can target multiple ads to a given keyword and easily track individual ad performance to see which ads are the most effective.

Conversion tracking. Conversion tracking is a free tool integrated into AdWords reports that measures the conversions of an advertiser s campaigns, enabling a better understanding of the overall return on investment generated for the advertiser by the AdWords program.

Traffic estimator. This tool estimates the number of searches and potential costs related to advertising on a particular keyword or set of keywords.

Quality-based bidding. Advertisers keywords are assigned dynamic minimum bids based on their Quality Score the higher the Quality Score, the lower the minimum bid. This rewards advertisers with relevant keywords and ads.

Budgeted delivery. Advertisers can set daily budgets for their campaigns and control the timing for delivery of their ads.

AdWords Discounter. This feature gives advertisers the freedom to increase their maximum cost-per-click because it automatically adjusts pricing so that they never pay more than one cent over the next highest bid.

We offer larger advertisers additional services that help maximize returns on their internet marketing investments and improve their ability to run large, dynamic campaigns. These include dedicated client service representatives as well as:

Creative maximization. Our AdWords specialists help advertisers select relevant keywords and create more effective ads.

Vertical market experts. Specialists with experience in particular industries offer guidance on how to target potential customers.

Bulk posting. We help businesses launch and manage large ad campaigns with hundreds or even thousands of targeted keywords.

The AdWords API and Commercial Developer Program. For large advertisers as well as third parties, Google s free AdWords API service lets developers engineer computer programs that interact directly with the AdWords system. With such applications, advertisers and third parties can more efficiently and creatively manage their large AdWords accounts and campaigns. The AdWords Commercial Developer Program also enables our third-party developer ecosystem to continue designing and delivering innovative business applications based on the AdWords platform and distribution channel.

Global Support. We provide customer service to our advertiser base through our global support organization as well as through over 60 offices in over 20 countries. AdWords is available on a self-service basis with email and real-time chat support. At certain spending levels and through certain signup channels, phone support is also available. Advertisers with more extensive needs and advertising budgets can request strategic support services, which include an account team, to help them set up and manage their campaigns. Depending on geography, we accept bank and wire transfers, direct debit, and local debit cards carrying the Visa and MasterCard logos. We also accept payment through international credit cards. For selected advertisers, we offer several options for credit terms and monthly invoicing. We accept payments in over 40 currencies.

Google AdSense

We are enthusiastic about helping content owners monetize their content, which facilitates the creation of better content to search. If there is better content on the web, people are likely to do more searches, and we expect that will be good for our business and for users. Our Google AdSense program enables web sites that are part of the Google Network to deliver AdWords ads that are relevant to the search results or content on their pages. It also allows offline media companies, such as television and radio stations, to deliver ads and audio ads to the content they provide. We share most of the revenue generated from ads shown by a Google Network member with that member. The key benefits we offer to Google Network members include:

Access to Advertisers. Many small web site companies and content producers do not have the time or resources to develop effective programs for generating revenue from online advertising. Even larger sites, with dedicated sales teams, may find it difficult to generate revenue from pages with specialized content. Google AdSense promotes effective revenue generation by providing Google Network members access to Google s base of advertisers and their broad collection of ads. Our technology automatically starts delivering ads on a web site as soon as the member joins the Google Network. Because the ads are related to what the web site s visitors are looking for on the site, AdSense provides the Google Network member with a way to both monetize and enhance their web sites. The Google Network member determines the placement of the ads on its web site, and controls and directs the nature of ad content.

Improved User Satisfaction. Many web sites are cluttered with intrusive or untargeted advertising that may distract or confuse users and may undermine users ability to find the information they want. Some web sites have adopted practices we consider to be abusive, including pop-up ads or ads that take over web pages. We believe these tactics can cause dissatisfaction with internet advertising and reduce use of the internet overall. Our AdSense program extends our commitment to improving the overall web experience by enabling web sites to display AdWords ads in a fashion that we believe people find useful rather than disruptive.

Better Storage, Management, Access and Visibility. We have developed new storage, management and access technologies to allow content owners and producers to distribute and, if they wish, monetize more types of online and offline content. We believe that only a small fraction of the world s information and content is easily and effectively stored and searchable, and that bringing non-traditional, online or offline content into Google s index will encourage the preservation and continued creation of this content. Google Scholar, Google Book Search, and Google Video enable more print and video content to be made easily accessible (and monetizable) online, while Google Base allows owners and creators to put online even non-traditional forms of structured information.

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Syndicated Search. We provide our search technology to partners of all sizes, allowing Google search service to be offered through these partners properties. For commercial partners, we provide an extensive range of customization options.

Our Google AdSense program includes:

Google AdSense for Search. For internet companies that want to target search audiences, we offer Google AdSense for search. To use AdSense for search, most of our AdSense for search partners add Google search functionality to their web pages in the form of customizable Google search boxes. We offer this service free to these partners. When visitors to these web sites search either the web site or the internet using these customizable search boxes, we display relevant ads (generally text ads) on the search results pages, targeted to match user search queries. These web sites can then generate additional revenue when visitors click on or view these ads. Because we also offer to license our web search technology along with Google AdSense for search, companies without their own search service can offer Google Web Search to improve the usefulness of their web sites for their users while increasing their revenue. We generally charge a fee related to these license agreements. We also offer a more customizable premium offering to web sites with significant traffic.

Google AdSense for Content. Google AdSense for content lets web sites generate revenue from advertising by serving relevant AdWords ads targeted to web content. Web sites can use our automated sign-up process to quickly display AdWords ads on their sites. Under this program, we use automated technology to analyze the meaning of the content on the web site and serve relevant ads based on the meaning of such content. For example, a web page on an automotive blog that contains an entry about vintage cars might display ads for vintage car parts or vintage car shows. These ads are displayed in spaces that our AdSense for content partners have set aside on their web sites for our AdWords content. AdSense for content allows a variety of ad types to be shown, including text ads, image ads, video ads, link units (which are sets of clickable links to topic pages related to page content) and themed units (which are regular text ad units with graphic treatments that change seasonally and by geography). We share the majority of the revenues generated from these ads with the Google Network members that display the ads. Important AdSense for content features include:

Competitive ad filters. Web sites can block competitive ads, or other ads they want to keep off their site, simply by telling us which URLs to block.

Reports. Publishers can view customizable reports about their AdSense performance.

Sensitive content filters. At times, certain ads may be inappropriate for some pages. For example, Google automatically filters out ads that would be inappropriate on a news page about a catastrophic event.

Choose default ads. In the unlikely event that Google is unable to serve targeted ads on a page, we offer web sites the option of displaying a default ad of their choice.

Google AdSense for Domains and Feeds. Google AdSense for domains allows owners of undeveloped domains that receive traffic from users typing generic terms into browsers or search to generate revenue from relevant advertising. AdSense for feeds is a free program that allows publishers to monetize their feeds user-subscribable content streams containing structured data such as stock and financial information, web blog posts, and weather reports through text ads targeted to the content of the feed. Like AdSense for search or content, Google shares the majority of the advertising revenue from AdSense for domains and AdSense for feeds with the domain owner or feed publisher.

Google Television Ads. Google Television Ads is a product that allows advertisers to use their AdWords account to create television campaigns. Advertisers can use our online advertising platform to place and monitor the effectiveness of their television ads, enhancing relevance and accountability.

Google AdSense for Audio and Audio Ads. Google AdSense for Audio is an early-stage product for radio broadcasters that automatically schedules and places advertising into radio programs, with the objective of increasing revenue for broadcasters by making their ad inventory available to new advertisers and decreasing the costs associated with processing advertisements. Google Audio Ads makes radio advertising easier for small and large businesses by providing an online interface for creating and launching radio advertising campaigns.

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Display Advertising

Display advertising is internet advertising that typically includes static or animated images as well as interactive audio or video media, such as the banner ads you see on the tops or sides of many popular web sites. Our goal is to make it easy for anyone to use display advertising. We want advertisers to realize a better return on their display advertising campaigns and publishers to maximize the value of the content on their web sites by providing tools, platforms and channels for ad management and delivery.

We completed our acquisition of DoubleClick in March 2008 and are in the process of integrating DoubleClick s online ad serving and management services into Google s advertising solutions. DoubleClick provides Google with a platform for delivering display advertising. DoubleClick also provides services related to the delivery of display advertising, including media planning, buying, implementation and measurement tools for advertisers and agencies and forecasting and reporting tools for publishers. Through these tools we also provide publishers with access to agencies and advertisers to help them sell their advertising inventory and ways to streamline the ad sales process.

We also offer advertising solutions on YouTube in a range of video, static or animated images, and interactive formats.

The Technology Behind Google s Advertising Programs

Our AdWords and AdSense programs serve millions of relevant, targeted ads each day based on search terms people enter or content they view on the web. The key elements of our advertising technology include:

Google AdWords Auction System. The Google AdWords auction system lets advertisers automatically deliver relevant, targeted advertising. Every search query we process involves the automated execution of an auction, resulting in our advertising system often processing hundreds of millions of auctions per day. To determine whether an ad is relevant to a particular query, this system weighs an advertiser s willingness to pay for prominence in the ad listings (the cost-per-click or cost-per-impression bid) and interest from users in the ad as measured by the click-through rate and other factors. Our Quality-based bidding system also assigns minimum bids to advertiser keywords based on the Quality scores of those keywords the higher the Quality score, the lower the minimum bid. The Quality score is determined by an advertiser s keyword click-through rate, the relevance of the ad text, historical keyword performance, the quality of the ad s landing page and other relevancy factors. This prevents advertisers with irrelevant ads from squatting in top positions to gain exposure, and rewards more relevant, well-targeted ads that are clicked on frequently. Because we are paid only when users click on ads, the AdWords ranking system aligns our interests with those of our advertisers and our users. The more relevant and useful the ad, the better for our users, for our advertisers and for us.

The AdWords auction system also incorporates the AdWords Discounter, which automatically lowers the amount advertisers actually pay to the minimum needed to maintain their ad position. Consider a situation where there are three advertisers Pat, Betty and Joe each bidding on the same keyword for ads that will be displayed on Google.com. These advertisers have ads with equal click-through rates and bid $1.00 per click, $0.60 per click and $0.50 per click, respectively. With our AdWords discounter, Pat would occupy the first ad position and pay only $0.61 per click, Betty would occupy the second ad position and pay only $0.51 per click, and Joe would occupy the third ad position and pay the minimum bid of $0.01 per click. The AdWords discounter saves money for advertisers by minimizing the price they pay per click, while relieving them of the need to constantly monitor and adjust their cost-per-click. Advertisers can also experience greater discounts through the application of our smart pricing technology, which can reduce the price of clicks for ads served across the Google Network based on the expected value of the click to the advertiser.

AdSense Contextual Advertising Technology. Our AdSense technology employs techniques that consider factors such as keyword analysis, word frequency and the overall link structure of the web to analyze the content of individual web pages and to match ads to them almost instantaneously. With this ad targeting technology, we can automatically serve contextually relevant ads. To do this, Google Network members embed a small amount of custom HTML code on web pages that generates a request to Google s AdSense service whenever a user views the web page. Upon receiving a request, our software examines the content of web pages and performs a matching process that identifies advertisements that we believe are relevant to the content of the specific web page. The relevant ads are then returned to the web pages in response to the request. We employ similar techniques for matching advertisements to other forms of textual content, such as email messages and Google Groups postings. For example, our technology can serve ads offering tickets to fans of a specific sports team on a news story about that team.

Our display advertising programs provide advertisers and publishers services related to the delivery of branded display advertising. The key elements of our display advertising technology include:

DoubleClick Advertiser Platform. The DoubleClick Advertiser Platform provides tools for media planning, buying, selling, ad delivery, measurement, and optimization. The key technologies included in this platform are:

- *Google Ad Planner and MediaVisor*. This research and media planning tool allows agencies and advertisers to identify the web sites their target customers are likely to visit. MediaVisor improves media buying by replacing formerly manual tasks in the media buying process.

- *DART for Advertisers*. DART for advertisers is an ad management and serving solution that can manage, traffic, serve and report on an advertiser s online campaign.

- *DoubleClick Rich Media and Video*. This tool covers the process of creating, managing and reporting on rich media and video advertising.

DoubleClick Publisher Platform. The DoubleClick Publisher Platform provides tools that address key challenges throughout the publisher ad sales cycle and helps maximize the value of publisher content. The key technologies included in this platform are:

- *The DART Ad Serving Platform*. DART for Publishers is our hosted ad serving platform and DART Enterprise is our licensed software solution. Both provide tools to manage digital ad sales operations for publishers.

- *DART Sales Manager*. This proposal and finance management tool is designed for companies using the DART platform.

- *DART Adapt for Publishers*. This tool is DoubleClick s solution designed to increase campaign performance by managing publisher inventory.

- *DoubleClick Ad Exchange*. The ad exchange service connects advertisers, agencies and networks with online publishers to improve yield for sellers and campaign performance and ROI for buyers.

YouTube. YouTube offers video ads solutions to advertisers that provide advertisers with a way to promote their content to the YouTube community as well as to associate themselves with content being watched by their target audience. YouTube offers analytic tools to help advertisers understand their audience and derive general business intelligence. The key solutions provided by YouTube include:

- *Sponsored Videos*. Sponsored videos allows advertisers of any size to use a self-service tool to reach people who are interested in their content, products or services.

- *YouTube Video Ads*. These video ads enable advertisers to upload and promote their videos on the YouTube homepage, garnering reach, ratings and click-through rates to their own web sites and brand channels on YouTube.

Engagement Content Aggregation Programs. These programs enable a sponsored thematic experience using partner videos, thus enabling partner monetization.

Display and Linear ads. These ads including traditional branded display, linear ads, and video overlay ads, let advertisers monetize video playback and share money with the content owner.

Click to Buy. Click to buy allows advertisers to create a marketplace for items driven from the video playback.

Google Enterprise

Schools and businesses are increasingly moving towards web-based applications and away from licensed software. Since web-based applications require minimal up-front investment, businesses can pay as they use them and download updates.

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Through Google Apps, we provide hosted applications for businesses, schools, and nonprofit organizations. In addition, we provide our search technology for use within enterprises through the Google Search Appliance and Google Mini. These search appliances are a software and hardware solution that companies can implement to extend Google s search performance to their internal or external information.

Google Apps. Google Apps provides hosted communication and collaboration tools for organizations such as businesses, schools, and groups. Google Apps includes communication features such as Gmail, Google Calendar, Google Video, Google Sites, and Google Talk and collaboration features such as Google Docs. It is available on an organization s own domain. Google Apps is available in Standard and Premier Editions, with the Premier Edition providing security and compliance features allowing administrators to implement rules for how messages are handled, as well as search for and recover deleted mail across their domain.

Google Mini. The Google Mini is targeted at small-and medium-sized businesses who want to let employees and customers search designated documents, intranets and web sites.

Google Search Appliance. The Google Search Appliance is similar to the Google Mini except that it can handle more documents and offers more advanced features. Some advanced features of the Google Search Appliance include integration with advanced corporate security protocols, integration with other enterprise applications, such as content management systems, portals and other systems, and real-time search of business applications. The Google Search Appliance is available in three models: the GB-1001, for mid-sized companies; the GB-5005, for dedicated, high-priority search services such as customer-facing web sites and company-wide intranet applications; and the GB-8008, for centralized deployments supporting global business units.

For companies, universities and government agencies, Google also offers the Google Toolbar for Enterprise and Google Desktop for Enterprise. Google Toolbar gives employees a search box in the browser and the ability to create custom search buttons. Google Desktop for Enterprise indexes the contents of a user s hard drive for easy search and retrieval of documents, email, IM chats and other items. Google Earth s Enterprise offerings let business users view, modify and export their data in a geographic context. Google Earth Pro, a downloadable application with pricing starting at $400 per user, lets users overlay company-specific data and information in Google Earth. Google Earth Enterprise lets users integrate and host proprietary geographic data or satellite imagery with Google Earth content.

Sales and Support

We have put significant effort into developing our sales and support infrastructure. We have over 65 offices in over 30 countries, the large majority of which includes sales people. We deploy specialized sales teams across vertical markets. We bring businesses into our advertising network through both online and direct sales channels. We work to use technology and automation wherever possible to improve the experience for our advertisers and to grow our business cost-effectively. The vast majority of our advertisers use our automated online AdWords program to establish accounts, create ads, target users and launch and manage their advertising campaigns. Our direct advertising sales team focuses on attracting and supporting companies around the world with the largest advertising budgets. Our AdSense program follows a similar model. Most of the web sites in the Google Network sign up for AdSense using an automated online process. Our direct sales force focuses on building AdSense relationships with leading internet companies. Our display program, which includes DoubleClick and YouTube, also follows a similar model. Most advertisers and publishers sign up using an automated online process. Our direct sales force focuses on attracting and supporting advertisers and publishers around the world. Our global support organization concentrates on helping our advertisers and Google Network members get the most out of their relationship with us.

Marketing

We have always believed that building a trusted, highly-recognized brand begins with providing high-quality products and services that make a notable difference in people s lives. Our user base has grown primarily by word-of-mouth. Our early marketing efforts focused on feeding this word-of-mouth momentum and used public relations efforts to accelerate it. Through these efforts and people s increased usage of Google worldwide, we have been able to build our brand with relatively low marketing costs as a percentage of our revenues. Today, we use the quality of our own products and services as our most effective marketing tool, and word-of-mouth momentum continues to drive consumer awareness and user loyalty worldwide. We also engage in targeted marketing efforts, such as those we deliver to our advertising clients, designed to inform potential advertisers, Google Network members and enterprises of the benefits they can achieve through Google as well as targeted consumer marketing in certain geographies. In addition, we sponsor industry conferences and have promoted the distribution of Google products to internet users in order to make our search services easier to access.

Competition

We operate in a market that is characterized by rapid change and converging, as well as new and disruptive technologies, and we face formidable competition in every aspect of our business, particularly from companies that seek to connect people with information on the web and provide them with relevant advertising. Currently, we consider our primary competitors to be Microsoft Corporation and Yahoo! Inc.

We face competition from other web search providers, including start-ups as well as developed companies that are enhancing or developing search technologies. We compete with internet advertising companies, particularly in the areas of pay-for-performance and keyword-targeted internet advertising. Also, we may compete with companies that sell products and services online because these companies, like us, are trying to attract users to their web sites to search for information about products and services. We also provide a number of online products and services, including Gmail, YouTube, and Google Docs, that compete directly with new and established companies that offer communication, information, and entertainment services integrated into their products or media properties. We also compete with web sites that provide their own or user-generated content and provide advertising to their users.

We compete to attract and retain relationships with users, advertisers and Google Network members and other content providers in different ways:

Users. We compete to attract and retain users of our search and communication products and services. Most of the products and services we offer to users are free, so we do not compete on price. Instead, we compete in this area 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. We compete to attract and retain advertisers. We compete in this area principally on the basis of the return on investment realized by advertisers using our AdWords and AdSense programs. We also compete based on the quality of customer service, features and ease of use of our products and services.

Google Network members and other content providers. We compete to attract and retain content providers (Google Network members, as well as other content providers for whom we distribute or license content) primarily based on the size and quality of our advertiser base, our ability to help these partners generate revenues from advertising and the terms of the agreements.

Intellectual Property

We rely on a combination of patent, trademark, copyright and trade secret laws in the U.S. and other jurisdictions as well as confidentiality procedures and contractual provisions to protect our proprietary technology and our brand. We also enter into confidentiality and invention assignment agreements with our employees and consultants and confidentiality agreements with other third parties, and we rigorously control access to proprietary technology.

Google, YouTube, DoubleClick, DART, AdSense, AdWords, Gmail, I m Feeling Lucky, PageRank, Blogger, orkut, Picasa, SketchUp and Postini are registered trademarks in the U.S. Our unregistered trademarks include, Blog*Spot, Jaiku, Android, Open Handset Alliance, OpenSocial, Panoramio, and Knol.

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The first version of the PageRank technology was created while Larry and Sergey attended Stanford University, which owns a patent to PageRank. The PageRank patent expires in 2017. We hold a perpetual license to this patent. In October 2003, we extended our exclusivity period to this patent through 2011, at which point our license will become non-exclusive.

Circumstances outside our control could pose a threat to our intellectual property rights. For example, effective intellectual property protection may not be available in every country in which our products and services are distributed. Also, the efforts we have taken to protect our proprietary rights may not be sufficient or effective. Any significant impairment of our intellectual property rights could harm our business or 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.

Companies in the internet, technology and media industries own large numbers of patents, copyrights and trademarks and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. As we face increasing competition, the possibility of intellectual property claims against us grows. Our technologies may not be able to withstand any third-party claims or rights against their use.

Government Regulation

We are subject to a number of foreign and domestic laws and regulations that affect companies conducting business on the internet. In addition, laws and regulations relating to user privacy, freedom of expression, content, advertising, information security and intellectual property rights are being debated and considered for adoption by many countries throughout the world. We face risks from some of the proposed legislation that could be passed in the future.

In the U.S., laws relating to the liability of providers of online services for activities of their users and other third parties are currently being tested by a number of claims, which include actions for libel, slander, invasion of privacy and other tort claims, unlawful activity, copyright and trademark infringement and other theories based on the nature and content of the materials searched, the ads posted or the content generated by users. Certain foreign jurisdictions are also testing the liability of providers of online services for activities of their users and other third parties. Any court ruling that imposes liability on providers of online services for activities of their users and other third parties could harm our business.

A range of other laws and new interpretations of existing laws could have an impact on our business. For example, the Digital Millennium Copyright Act has provisions that limit, but do not necessarily eliminate, our liability for listing, linking or hosting third-party content that includes materials that infringe copyrights. The Child Online Protection Act and the Children s Online Privacy Protection Act restrict the distribution of materials considered harmful to children and impose additional restrictions on the ability of online services to collect information from children under 13. In the area of data protection, many states have passed laws requiring notification to users when there is a security breach for personal data, such as California s Information Practices Act. The costs of compliance with these laws may increase in the future as a result of changes in interpretation. Furthermore, any failure on our part to comply with these laws may subject us to significant liabilities.

Similarly, the application of existing laws prohibiting, regulating or requiring licenses for certain businesses of our advertisers, including, for example, online gambling, distribution of pharmaceuticals, adult content, financial services, alcohol or firearms, can be unclear. Application of these laws in an unanticipated manner could expose us to substantial liability and restrict our ability to deliver services to our users.

We also face risks due to government failure to preserve the internet s basic neutrality as to the services and sites that users can access through their broadband service providers. Such a failure to enforce network neutrality could limit the internet s pace of innovation and the ability of large competitors, small businesses and entrepreneurs to develop and deliver new products, features and services, which could harm our business.

We are also subject to federal, state and foreign laws regarding privacy and protection of user data. We post on our web site our privacy policies and practices concerning the use and disclosure of user data. Any failure by us to comply with our posted privacy policies or privacy-related laws and regulations could result in proceedings against us by governmental authorities or others, which could potentially harm our business. In addition, the interpretation of data protection laws, and their application to the internet, in Europe and other foreign jurisdictions is unclear and in a state of flux. There is a risk that these laws may be interpreted and applied in conflicting ways from country to country and in a manner that is not consistent with our current data protection practices. Complying with these varying international requirements could cause us to incur additional costs and change our business practices. Further, any failure by us to protect our users privacy and data could result in a loss of user confidence in our services and ultimately in a loss of users, which could adversely affect our business.

In addition, because our services are accessible worldwide, certain foreign jurisdictions have claimed and others may claim that we are required to comply with their laws, even where we have no local entity, employees or infrastructure.

Culture and Employees

We take great pride in our company culture and embrace it as one of our fundamental strengths. Our culture encourages the iteration of ideas to address complex technical challenges. In addition, we embrace individual thinking and creativity. As an example, we encourage our engineers to devote as much as 20% of their time to work on independent projects. Many of our significant new products have come from these independent projects, including Google News, AdSense for content and orkut.

We began as a technology company and have evolved into a software, technology, internet, advertising and media company all rolled into one. We take technology innovation very seriously. We compete aggressively for talent, and our people drive our innovation, technology development and operations. We strive to hire the best computer scientists and engineers to help us solve very significant challenges across systems design, artificial intelligence, machine learning, data mining, networking, software engineering, testing, distributed systems, cluster design and other areas. We work hard to provide an environment where these talented people can have fulfilling jobs and produce technological innovations that have a positive effect on the world through daily use by millions of people.

We have assembled what we believe is a highly talented group of employees. Despite our rapid growth, we constantly seek to maintain a small-company feel that promotes interaction and the exchange of ideas among employees. We try to minimize corporate hierarchy to facilitate meaningful communication among employees at all levels and across departments. We believe that considering multiple viewpoints is critical to developing effective solutions, and we attempt to build consensus in making decisions. While teamwork is one of our core values, we also significantly reward individual accomplishments that contribute to our overall success. As we grow, we expect to continue to provide compensation structures that are more similar to those offered by start-ups than established companies. We focus on very significant rewards for individuals and teams that build amazing things that provide significant value to us, our advertisers and our users.

At December 31, 2008, we had 20,222 employees, consisting of 7,254 in research and development, 8,002 in sales and marketing, 3,109 in general and administrative and 1,857 in operations. All of Google s employees are also equityholders, with significant collective employee ownership. As a result, many employees are highly motivated to make the company more successful.

Seasonality

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.

Available Information

Our web site is located at www.google.com, and our investor relations web site is located at http://investor.google.com. The following filings are available through our investor relations web site after we file them with the Securities and Exchange Commission (SEC): Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and our Proxy Statements for our annual stockholder s meetings (for the last two years). We also provide a link to the section of the SEC s website at www.sec.gov that has all of our public filings. Our Quarterly Reports, Annual Reports, and Proxy Statements for the last two years are also available for download free of charge on our investor relations web site. Further, a copy of this Annual Report on Form 10-K is located at the SEC s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding our filings at www.sec.gov.

We webcast our earnings calls and certain events we participate in or host with members of the investment community on our investor relations web site. Additionally, we provide notifications of news or announcements regarding our financial performance, including SEC filings, investor events, press and earnings releases, and blogs as part of our investor relations web site. The contents of these web sites are not intended to be incorporated by reference into this report or in any other report or document we file and any reference to these web sites are intended to be inactive textual references only.

ITEM 1A. RISK FACTORS

Risks Related to Our Business and Industry

We face significant competition from Microsoft and Yahoo.

We face formidable competition in every aspect of our business, and particularly from other companies that seek to connect people with information on the web and provide them with relevant advertising. Currently, we consider our primary competitors to be Microsoft Corporation and Yahoo! Inc. Microsoft has developed features that make web search a more integrated part of its Windows operating system and other desktop software products. We expect that Microsoft will increasingly use its financial and engineering resources to compete with us. Microsoft has more employees and cash resources than we do. Also, both Microsoft and Yahoo have longer operating histories and more established relationships with customers and end users. They can use their experience and resources against us in a variety of competitive ways, including by making acquisitions, investing more aggressively in research and development and competing more aggressively for advertisers and web sites. Microsoft and Yahoo also may have a greater ability to attract and retain users than we do because they operate internet portals with a broad range of content products and services. If Microsoft or Yahoo is successful in providing similar or better web search results or more relevant advertisements, or in leveraging their platforms or products to make their web search or advertising services easier to access, we could experience a significant decline in user traffic or the size of the Google Network. Any such decline could negatively affect our revenues.

We face competition across all geographic markets from other internet companies, including web search providers, internet access providers, internet advertising companies, destination web sites, and local information providers, and from traditional media companies.

In addition to Microsoft and Yahoo, we face competition from other web search providers, including start-ups as well as developed companies that are enhancing or developing search technologies. We compete with internet advertising companies, particularly in the areas of pay-for-performance and keyword-targeted internet advertising. Also, we may compete with companies that sell products and services online because these companies, like us, are trying to attract users to their web sites to search for information about products and services. We also provide a number of online products and services, including Gmail, YouTube, and Google Docs, that compete directly with new and established companies that offer communication, information, and entertainment services integrated into their products or media properties.

We also compete with web sites that provide their own or user-generated content and provide advertising to their users. These destination web sites include those operated by internet access providers, such as cable and DSL service providers. Because our users need to access our services through internet access providers, they have direct relationships

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with these providers. If an access provider or a computer or computing device manufacturer offers online services that compete with ours, the user may find it more convenient to use the services of the access provider or manufacturer. Also, because the access provider gathers information from the user in connection with the establishment of a billing relationship, the access provider may be more effective than we are in tailoring services and advertisements to the specific tastes of the user.

In certain markets outside the U.S., other web search, advertising services, and internet companies have greater brand recognition, more users, and more search traffic than we have. Even in countries where we have a significant user following, we may not be as successful in generating advertising revenue due to slower market development, our inability to provide attractive local advertising services or other factors. In order to compete, we need to better understand our international users and their preferences, improve our brand recognition, our selling efforts internationally, and build stronger relationships with advertisers. If we fail to do so, our global expansion efforts may be more costly and less profitable than we expect.

In addition to internet companies, internet advertising companies such as Google face competition from companies that offer traditional media advertising opportunities. Most large advertisers have fixed advertising budgets, a 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 revenue growth rate to decline and anticipate downward pressure on our operating margin in the future.

We believe our revenue growth rate will generally decline as a result of a number of factors including increasing competition, the inevitable decline in growth rates as our revenues increase to higher levels and the increasing maturity of the online advertising market. We believe our operating margin will experience downward pressure as a result of increasing competition and increased expenditures for many aspects of our business. Our operating margin will also experience downward pressure if a greater percentage of our revenues comes from ads placed on our Google Network members web sites compared to revenues generated through ads placed on our own web sites or if we spend a proportionately larger amount to promote the distribution of certain products, including Google Toolbar. The margin on revenue we generate from our Google Network members is 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 members could decrease in the future if we pay an even larger percentage of advertising fees to our Google Network members.

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 Item 1A and the following factors may affect our operating results:

- Our ability to continue to attract users to our web sites and satisfy existing users on our web sites.

- Our ability to monetize (or generate revenue from) traffic on our web sites and our Google Network members 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 revenues between those generated on our web sites and those generated through our Google Network.

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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.

Our ability to keep our web sites operational at a reasonable cost and without service interruptions.

Our ability to achieve revenue goals for partners to whom we guarantee minimum payments or pay distribution fees.

Our ability to generate revenue from services in which we have invested considerable time and resources, such as YouTube and Google Checkout.

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. For example, in 1999, advertisers spent heavily on internet advertising. This was followed by a lengthy downturn in ad spending on the web. 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 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 suffer.

Our success depends on providing products and services that make using the internet a more useful and enjoyable experience for our users. Our competitors are constantly developing innovations in web search, online advertising and web based products and services. As a result, we must continue to invest significant resources in research and development in order to enhance our web 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 our users may become dissatisfied and move to a competitor s products and services. In addition, these new products and services may present new and difficult technology challenges, and we may be subject to claims if users of these offerings experience service disruptions or failures or other quality 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 search technology continues to develop, our competitors may be able to offer search results 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.

We generate our revenue almost entirely from advertising, and the reduction in spending by or loss of advertisers could seriously harm our business.

We generated 99% of our revenues in 2007 and 97% of our revenues in 2008 from our advertisers. 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, and ultimately customers, or if we do not deliver their advertisements in an appropriate and effective manner. In addition, expenditures by advertisers tend to be cyclical, reflecting overall economic conditions and budgeting and buying patterns. If we are unable to remain competitive and provide value to our advertisers, they may stop placing ads with us, which would negatively harm our revenues and business.

The effects of the recent global economic crisis may impact our business, operating results, or financial condition.

The recent global economic crisis has caused disruptions and extreme volatility in global financial markets and increased rates of default and bankruptcy, and has impacted levels of consumer spending. These macroeconomic developments could negatively affect our business, operating results, or financial condition in a number of ways. For example, current or potential customers such as advertisers may delay or decrease spending with us or may not pay us or

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may delay paying us for previously purchased products and services. In addition, if consumer spending continues to decrease, this may result in fewer clicks on our advertisers ads displayed on our web sites and our Google Network members web sites. Finally, if the banking system or the financial markets continue to deteriorate or remain volatile, our investment portfolio may be impacted and the values and liquidity of our investments could be adversely affected.

We rely on our Google Network members for a significant portion of our revenues, and we benefit from our association with them. The loss of these members could adversely affect our business.

We provide advertising, web search and other services to our Google Network members, which accounted for 35% of our revenues in 2007 and 31% of our revenues in 2008. Some of the participants in this network may compete with us in one or more areas. They may decide in the future to terminate their agreements with us. If our Google Network members decide to use a competitor s or their own web search or advertising services, our revenues would decline. Our agreements with a few of the largest Google Network members account for a significant portion of revenues derived from our AdSense program. If our relationship with one or more large Google Network members were terminated or renegotiated on terms less favorable to us, our business could be adversely affected.

Also, certain of our key Google Network members operate high-profile web sites, and we derive tangible and intangible benefits from this affiliation. If one or more of these key relationships is terminated or not renewed, and is not replaced with a comparable relationship, our business would be adversely affected.

Our business and operations are experiencing rapid growth. If we fail to effectively manage our growth, our business and operating results could be harmed.

We have experienced rapid growth in our headcount and operations, which has placed, and will continue to place, significant demands on our management, operational and financial infrastructure. If we do not effectively manage our growth, the quality of our products and services could suffer, which could negatively affect our brand and operating results. Our expansion and growth in international markets heightens these risks as a result of the particular challenges of supporting a rapidly growing business in an environment of multiple languages, cultures, customs, legal systems, alternative dispute systems, regulatory systems and commercial infrastructures. To effectively manage this growth, we will need to continue to improve our operational, financial and management controls and our reporting systems and procedures. These systems enhancements and improvements will require significant capital expenditures and management resources. Failure to implement these improvements could hurt our ability to manage our growth and our financial position.

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 and Google Network members.

The brand identity that we have developed has significantly contributed to the success of our business. Maintaining and enhancing the Google brand is critical to expanding our base of users, advertisers, Google Network members, and other partners. We believe that the importance of brand recognition will increase due to the relatively low barriers to entry in the internet market. If we fail to maintain and enhance the Google brand, or if we incur excessive expenses in this effort, our business, operating results and financial condition will be materially and adversely affected. Maintaining and enhancing our brand will depend largely on our ability to be a technology leader and continue to provide high-quality products and services, which we may not do successfully.

Acquisitions could result in operating difficulties, dilution and other harmful consequences.

We do not have a great deal of experience acquiring companies, and the companies we have acquired have typically been small. However, recently, we have closed a number of larger acquisitions, including our acquisitions of DoubleClick and Postini, and are in the process of integrating these businesses into our own. We also expect to continue to evaluate and enter into discussions regarding a wide array of potential strategic transactions. These transactions could be material to

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our financial condition and results of operations. 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:

- Implementation or remediation of controls, procedures and policies at the acquired company.
- Diversion of management time and focus from operating our business to acquisition integration challenges.
- Coordination of product, engineering and sales and marketing functions.
- Transition of operations, users and customers onto our existing platforms.
- Cultural challenges associated with integrating employees from the acquired company into our organization.
- Retention of employees from the businesses we acquire.
- Integration of the acquired company s accounting, management information, human resource and other administrative systems.
- Liability for activities of the acquired company before the acquisition, including patent and trademark infringement claims, 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.
- 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.
- Failure to successfully further develop the acquired technology.

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

Future acquisitions or dispositions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities or amortization expenses, or write-offs of goodwill, any of which could harm our financial condition. Also, the anticipated benefit of many of our acquisitions may not materialize. For example, we have yet to realize significant revenue benefits from our acquisitions of dMarc Broadcasting (Audio Ads) and YouTube.

Our international operations are subject to increased risks which could harm our business, operating results, and financial condition.

International revenues accounted for approximately 51% of our total revenues in 2008, and more than half of our user traffic came from outside the U.S. during this period. We have limited experience with operations outside the U.S. and our ability to manage our business and conduct our operations internationally requires considerable management attention and resources and is subject to a number of risks, including the following:

Challenges caused by distance, language and cultural differences and by doing business with foreign agencies and governments.

Longer payment cycles in some countries.

Uncertainty regarding liability for services and content.

Credit risk and higher levels of payment fraud.

Currency exchange rate fluctuations and our ability to manage these fluctuations under our foreign exchange risk management program.

Foreign exchange controls that might prevent us from repatriating cash earned in countries outside the U.S.

Import and export requirements that may prevent us from shipping products or providing services to a particular market and may increase our operating costs.

Potentially adverse tax consequences.

Higher costs associated with doing business internationally.

Different employee/employer relationships and the existence of workers councils and labor unions.

In addition, compliance with complex foreign and U.S. laws and regulations that apply to our international operations increases our cost of doing business in international jurisdictions and could expose us or our employees to fines and penalties. These numerous and sometimes conflicting laws and regulations include import and export requirements, content requirements, trade restrictions, tax laws, sanctions, internal and disclosure control rules, data privacy requirements, labor relations laws, U.S. laws such as the Foreign Corrupt Practices Act, and local laws prohibiting corrupt payments to governmental officials. Violations of these laws and regulations could result in fines, criminal sanctions against us, our officers or our employees, prohibitions on the conduct of our business and damage to our reputation. Although we have implemented policies and procedures designed to ensure compliance with these laws, there can be no assurance that our employees, contractors or agents will not violate our policies. Any such violations could include prohibitions on our ability to offer our products and services to one or more countries, and could also materially damage our reputation, our brand, our international expansion efforts, our ability to attract and retain employees, our business and our operating results.

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 and services. 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. Any significant impairment of our intellectual property rights could harm our business or 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.

Although we seek to obtain patent protection for our innovations, it is possible we may not be able to protect some of these innovations. In addition, given the costs of obtaining patent protection, we may choose not to protect 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 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.

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

We are, and may in the future be, subject to intellectual property rights claims, which are costly to defend, could require us to pay damages and could limit our ability to use certain technologies in the future.

Companies in the internet, technology and media industries 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. As we have grown, the intellectual property rights claims against us have increased. Our products, services and technologies may not be able to withstand any third-party claims and regardless of the merits of the claim, intellectual property claims are often time-consuming and expensive to litigate or settle. In addition, to the extent claims against us are successful, we may have to pay substantial monetary damages or discontinue any of our services or practices that are found to be in violation of another party s rights.

We also may have to seek a license to continue such practices, which may significantly increase our operating expenses. In addition, many of our agreements with our Google Network members and other partners require us to indemnify these members for certain third-party intellectual property infringement claims, which would increase our costs as a result of defending such claims and may require that we pay damages if there were an adverse ruling in any such claims.

Companies have filed trademark infringement and related claims against us over the display of ads in response to user queries that include trademark terms. The outcomes of these lawsuits have differed from jurisdiction to jurisdiction. We currently have three cases pending at the European Court of Justice, which will address questions regarding whether advertisers and search engines can be held liable for use of trademarked terms in keyword advertising. We are litigating, or have recently litigated similar issues in other cases, in the U.S., Australia, Austria, Brazil, China, France, Germany, Israel, and Italy.

We have also had copyright claims filed against us by companies alleging that features of certain of our products and services, including Google Web Search, Google News, Google Video, Google Image Search, Google Book Search, and YouTube, infringe their rights. In the U.S. we announced a settlement with the Authors Guild and the Association of American Publishers; however, this class action settlement is subject to approval by the U.S. District Court for the Southern District of New York, and we are subject to additional claims with respect to Google Book Search in other parts of the world. Adverse results in these lawsuits may include awards of substantial monetary damages, costly royalty or licensing agreements, or orders preventing us from offering certain functionalities, and may also result in a change in our business practices, which could result in a loss of revenue for us or otherwise harm our business. In addition, any time one of our products or services links to or hosts material in which others allegedly own copyrights, we face the risk of being sued for copyright infringement or related claims. Because these products and services comprise the majority of our products and services, the risk of harm from such lawsuits could be substantial.

We have also had patent lawsuits filed against us alleging that certain of our products and services, including Google Web Search, Google AdWords, Google AdSense, and Google Chrome, infringe patents held by others. In addition, the number of demands for license fees and the dollar amounts associated with each request continue to increase. Adverse results in these lawsuits, or our decision to license patents based upon these demands, may result in substantial costs and, in the case of adverse litigation rulings, could prevent us from offering certain features, functionalities, products, or services, which could result in a loss of revenue for us or otherwise harm our business.

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 and services 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 operating results. While we strive to comply with all applicable data protection laws and regulations, as well as our own posted privacy policies, any failure or perceived failure to comply may result in proceedings or actions against us by government entities or others, which could potentially have an adverse effect on our business.

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 may also need 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 as well as increase the number of countries where we operate.

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Regulatory authorities around the world are considering a number of legislative proposals concerning data protection. In addition, the interpretation and application of data protection laws in Europe and elsewhere are still 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. 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.

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

We are subject to a variety of laws in the U.S. and abroad that are costly to comply with, can result in negative publicity and diversion of management time and effort, and can subject us to claims or other remedies. Many of these laws were adopted prior to the advent of the internet and related technologies and, as a result, do not contemplate or address the unique issues of the internet and related technologies. The laws that do reference the internet are being interpreted by the courts, but their applicability and scope 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. Claims have been threatened and filed under both U.S. and foreign law for defamation, libel, slander, invasion of privacy and other tort claims, unlawful activity, copyright and trademark infringement, 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.

In addition, the Digital Millennium Copyright Act has provisions that limit, but do not necessarily eliminate, our liability for listing or linking to third-party web sites that include materials that infringe copyrights or other rights, so long as we comply with the statutory requirements of this act. The Child Online Protection Act and the Children s Online Privacy Protection Act restrict the distribution of materials considered harmful to children and impose additional restrictions on the ability of online services to collect information from minors. In the area of data protection, many states have passed laws requiring 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 as our products and services are offered in international markets and may be subject to additional regulations.

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 implicate a variety of new regulatory issues and may subject us to increased regulatory scrutiny, particularly in the U.S. and Europe. Moreover, our competitors have employed and will likely continue to employ significant resources to shape the legal and regulatory regimes in countries where we have significant operations. 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, or change our business practices. These changes or increased costs could negatively impact our business.

More individuals are using non-PC devices to access the internet. If users of these devices do not widely adopt versions of our web 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 personal computers, including mobile telephones, personal digital assistants (PDAs), smart phones and handheld computers and video game consoles, as well as television set-top devices, has increased dramatically in the past few years. The lower resolution, functionality and memory associated with alternative devices make the use of our products and services through such devices more difficult 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. As we have limited experience to date in operating versions of our products and services developed or optimized for users of alternative devices, and as new devices and new platforms are continually being released, it is difficult to predict the problems we may encounter in developing versions of our products and services for use on these alternative devices and we may need to devote significant resources to the creation, support and maintenance of such devices. If we are unable to attract and retain a substantial number of alternative device manufacturers, distributors and users to our products and services or if we are slow to develop products and technologies that are more compatible with non-PC communications devices, we will fail to capture a significant share of an increasingly important portion of the market for online services, which could adversely affect our business.

Our business may be adversely affected by malicious applications that interfere with, or exploit security flaws in, our products and services.

Our business may be adversely affected by malicious applications that make changes to our users computers and interfere with the Google experience. These applications have in the past attempted, and may in the future attempt, to change our users internet experience, including hijacking queries to Google.com, altering or replacing Google search results, or otherwise interfering with our ability to connect with our users. The interference often occurs without disclosure to or consent from users, resulting in a negative experience that users may associate with Google. These applications may be difficult or impossible to uninstall or disable, may reinstall themselves and may circumvent other applications efforts to block or remove them. In addition, we offer a number of products and services that our users download to their computers or that they rely on to store information and transmit information to others over the internet. These products and services are subject to attack by viruses, worms and other malicious software programs, which could jeopardize the security of information stored in a user s computer or in our computer systems and networks. The ability to reach users and provide them with a superior experience is critical to our success. If our efforts to combat these malicious applications are unsuccessful, or if our products and services have actual or perceived vulnerabilities, our reputation may be harmed and our user traffic could decline, which would damage our business.

Proprietary document formats may limit the effectiveness of our search technology by preventing our technology from accessing the content of documents in such formats, which could limit the effectiveness of our products and services.

A large amount of information on the internet is provided in proprietary document formats such as Microsoft Word. The providers of the software application used to create these documents could engineer the document format to prevent or interfere with our ability to access the document contents with our search technology. This would mean that the document contents would not be included in our search results even if the contents were directly relevant to a search. The software providers may also seek to require us to pay them royalties in exchange for giving us the ability to search documents in their format. If the software provider also competes with us in the search business, they may give their search technology a preferential ability to search documents in their proprietary format. Any of these results could harm our brand and our operating results.

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

Technologies have been developed that can block the display of our ads. Most of our revenues are derived from fees paid to us by advertisers in connection with the display of ads on web pages. As a result, ad-blocking technology could adversely affect our operating results.

If we fail to detect click fraud or other invalid clicks, we could face additional litigation as well as lose the confidence of our advertisers, which would cause our business to suffer.

We are exposed to the risk of fraudulent clicks and other invalid clicks on our ads from a variety of potential sources. We have regularly refunded fees that our advertisers have paid to us that were later attributed to click fraud and other invalid clicks, and we expect to do so in the future. Invalid clicks are clicks that we have determined are not intended by the user to link to the underlying content, such as inadvertent clicks on the same ad twice and clicks resulting from click fraud. Click fraud occurs when a user intentionally clicks on a Google AdWords ad displayed on a web site for a reason other than to view the underlying content. If we are unable to stop these invalid clicks, these refunds may increase. If we find new evidence of past invalid clicks we may issue refunds retroactively of amounts previously paid to our Google Network members. This would negatively affect our profitability, and these invalid clicks could hurt our brand. If invalid clicks are not detected, the affected advertisers may experience a reduced return on their investment in our advertising programs because the invalid clicks will not lead to potential revenue for the advertisers. This could lead the advertisers to become dissatisfied with our advertising programs, which has led to litigation alleging click fraud and could lead to further litigation, as well as to a loss of advertisers and revenues.

Index spammers could harm the integrity of our web search results, which could damage our reputation and cause our users to be dissatisfied with our products and services.

There is an ongoing and increasing effort by index spammers to develop ways to manipulate our web search results. For example, because our web search technology ranks a web page s relevance based in part on the importance of the web sites that link to it, people have attempted to link a group of web sites together to manipulate web search results. We take this problem very seriously because providing relevant information to users is critical to our success. If our efforts to combat these and other types of index spamming are unsuccessful, our reputation for delivering relevant information could be diminished. This could result in a decline in user traffic, which would damage our business.

If we were to lose the services of Eric, Larry, Sergey or other members of our senior management team, 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, our CEO, Eric Schmidt, and our founders, Larry Page and Sergey Brin, are critical to the overall management of Google as well as the development of our technology, our culture and 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 any of our management or 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.

We have a short operating history and a relatively new business model in an emerging and rapidly evolving market. This makes it difficult to evaluate our future prospects and may increase the risk that we will not continue to be successful.

We first derived revenue from our online search business in 1999 and from our advertising services in 2000, and we have only a short operating history with our cost-per-click advertising model, which we launched in 2002 and our cost-per-impression advertising model which we launched in the second quarter of 2005. As a result, we have only a short operating history to aid in assessing our future prospects. Also, we derive nearly all of our revenues from online advertising, which is an immature industry that has undergone rapid and dramatic changes in its short history. We will encounter risks and difficulties as a company operating in a new and rapidly evolving market. We may not be able to successfully address these risks and difficulties, which could materially harm our business and operating results.

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We may have difficulty scaling and adapting our existing architecture to accommodate increased traffic and technology advances or changing business requirements, which could lead to the loss of users, advertisers and Google Network members, and cause us to incur expenses to make architectural changes.

To be successful, our network infrastructure has to perform well and be reliable. The greater the user traffic and the greater the complexity of our products and services, the more computing power we will need. We have spent and expect to continue to spend substantial amounts on the purchase and lease of data centers and equipment and the upgrade of our technology and network infrastructure to handle increased traffic on our web sites and to roll out new products and services. This expansion is expensive and complex and could result in inefficiencies or operational failures. If we do not expand successfully, or if we experience inefficiencies and operational failures, the quality of our products and services and our users experience could decline. This could damage our reputation and lead us to lose current and potential users, advertisers and Google Network members. Cost increases, loss of traffic or failure to accommodate new technologies or changing business requirements could harm our operating results and financial condition.

We rely on bandwidth providers, data centers and others in providing products and services to our users, and any failure or interruption in the services and products provided by these third parties could damage our reputation and harm our ability to operate our business.

We rely on vendors, including data center and bandwidth providers in providing products and services to our users. Any disruption in the network access or colocation services provided by these providers or any failure of these providers to handle current or higher volumes of use could significantly harm our business. Any financial or other difficulties our providers face may have negative effects on our business. We exercise little control over these vendors, which increases our vulnerability to problems with the services they provide. We license technology and related databases to facilitate aspects of our data center and connectivity operations including internet traffic management services. We have experienced and expect to continue to experience interruptions and delays in service and availability for such elements. Any errors, failures, interruptions or delays in connection with these technologies and information services could harm our relationship with users, adversely affect our brand and expose us to liabilities.

Our business depends on continued and unimpeded access to the internet by us and our users. Internet access providers may be able to 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 and increasing market power in the broadband and internet access marketplace, including incumbent telephone companies, cable companies and mobile communications companies. Some of these providers have stated that they may take measures 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. These activities may be permitted in the U.S. after recent regulatory changes, including recent decisions by the U.S. Supreme Court and Federal Communications Commission. While interference with access to our popular products and services seems unlikely, such carrier 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 revenue and growth.

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.

The availability of our products and services depends on the continuing operation of our information technology and communications systems. Any damage to or failure of our systems could result in interruptions in our service, which could reduce our revenues and profits, and damage our brand. 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 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 without adequate notice for financial reasons or other unanticipated problems at our data centers could result in lengthy interruptions in our service.

Our business depends on increasing use of the internet by users searching for information, advertisers marketing products and services and web sites seeking to earn revenue to support their web content. If the internet infrastructure does not grow and is not maintained to support these activities, our business will be harmed.

Our success will depend on the continued growth and maintenance of the internet infrastructure. This includes maintenance of a reliable network backbone with the necessary speed, data capacity and security for providing reliable internet services. Internet infrastructure may be unable to support the demands placed on it if the number of internet users continues to increase, or if existing or future internet users access the internet more often or increase their bandwidth requirements. In addition, viruses, worms and similar programs may harm the performance of the internet. The internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure, and could face outages and delays in the future. These outages and delays could reduce the level of internet usage as well as our ability to provide our solutions.

Payments to certain of our Google Network members have exceeded the related fees we receive from our advertisers.

We are obligated under certain agreements to make non-cancelable guaranteed minimum revenue share payments to Google Network members based on their achieving defined performance terms, such as number of search queries or advertisements displayed. In these agreements, we promise to make these minimum payments to the Google Network member for a pre-negotiated period of time. At December 31, 2008, our aggregate outstanding non-cancelable guaranteed minimum revenue share commitments totaled $1.03 billion through 2012 compared to $1.75 billion at December 31, 2007. It is difficult to forecast with certainty the fees that we will earn under agreements with guarantees, and sometimes the fees we earn fall short of the guaranteed minimum payment amounts.

We rely on outside providers for our worldwide billing, collection, payment processing and payroll. If these outside service providers are not able to fulfill their service obligations, our business and operations could be disrupted, and our operating results could be harmed.

Outside providers perform various functions for us, such as worldwide billing, collection, payment processing and payroll. These functions are critical to our operations and involve sensitive interactions between us and our advertisers, partners (e.g., Google Network members) and employees. Although we have implemented service level agreements and have established monitoring controls, if we do not successfully manage our service providers or if the service providers do not perform satisfactorily to agreed-upon service levels, our operations could be disrupted resulting in advertiser, partner or employee dissatisfaction. In addition, our business, reputation and operating results could be adversely affected.

To the extent our revenues are paid in foreign currencies, and currency exchange rates become unfavorable, we may lose some of the economic value of the revenues in U.S. dollar terms.

As we expand our international operations, more of our customers may pay us in foreign currencies. Conducting business in currencies other than U.S. dollars subjects us to fluctuations in currency exchange rates. If the currency exchange rates were to change unfavorably, the value of net receivables we receive in foreign currencies and later convert to U.S. dollars after the unfavorable change would be diminished. This could have a negative impact on our reported operating results. Hedging strategies, such as forward contracts, options and foreign exchange swaps related to transaction exposures, that we have implemented or may implement to mitigate this risk may not reduce or completely offset our exposure to foreign exchange fluctuations. Additionally, hedging programs expose us to risks that could adversely affect our financial results, including the following:

- We have limited experience in implementing or operating hedging programs. Hedging programs are inherently risky and we could lose money as a result of poor trades.

- We may be unable to hedge currency risk for some transactions or match the accounting for the hedge with the exposure because of a high level of uncertainty or the inability to reasonably estimate our foreign exchange exposures.

- We may be unable to acquire foreign exchange hedging instruments in some of the geographic areas where we do business, or, where these derivatives are available, we may not be able to acquire enough of them to fully offset our exposure.

- We may determine that the cost of acquiring a foreign exchange hedging instrument outweighs the benefit we expect to derive from the derivative, in which case we would not purchase the derivative and would be exposed to unfavorable changes in currency exchange rates.

- To the extent we recognize a gain on a hedge transaction in one of our subsidiaries that is subject to a high statutory tax rate, our effective tax rate may be higher.

- Significant fluctuations in foreign exchange rates could greatly increase our hedging costs.

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 where we have lower statutory tax rates and higher than anticipated in jurisdictions where we have higher statutory tax rates, by changes in the valuation of our deferred tax assets and liabilities, as a result of gains on our foreign exchange hedging program, or changes in tax laws, regulations, accounting principles or interpretations thereof. Our determination of our tax liability is always subject to review by applicable tax authorities. Any adverse outcome of such a review 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 Common Stock

The trading price for our Class A common stock has been and may continue to be volatile.

The trading price of our Class A common stock has been volatile since our initial public offering and will likely continue to be volatile. The trading price of our Class A common stock may fluctuate widely in response to various factors, some of which are beyond our control. These factors include:

- 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.

- The volume of shares of Class A common stock available for public sale.

- Sales of stock by us or by our stockholders.

- Short sales, hedging and other derivative transactions on shares of our Class A common stock (including derivative transactions under our Transferable Stock Option (TSO) program).

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

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those companies. These broad market and industry factors may seriously harm the market price of our Class A common stock, regardless of our actual operating performance. In the past, following periods of volatility in the overall market and the market price of a company s securities, securities class-action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management s attention and resources.

We do not intend to pay dividends on our common stock.

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

The concentration of our capital stock ownership with our founders, executive officers and our directors and their affiliates will limit our stockholders ability to influence corporate matters.

Our Class B common stock has 10 votes per share and our Class A common stock has one vote per share. As of December 31, 2008, our founders, executive officers and directors (and their affiliates) together owned shares of Class A common stock, Class B common stock and other equity interests representing approximately 71% of the voting power of our outstanding capital stock. In particular, as of December 31, 2008, our two founders and our CEO, Larry, Sergey and Eric, owned approximately 90% of our outstanding Class B common stock, representing approximately 68% 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 its assets, for the foreseeable future. This concentrated control limits 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 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 dual class common stock structure. As a result of this structure our founders, executives and employees 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 its 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.

- 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.

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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 capital 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

On April 24, 2008, we received a comment letter from the Securities and Exchange Commission (SEC) related to various issues with respect to our public filings, including our accounting of payments related to distribution arrangements. We responded to the SEC on May 14, 2008. Subsequently, on June 12, 2008, August 11, 2008, October 9, 2008, December 12, 2008 and February 5, 2009, we received additional comment letters from the SEC on these and other matters. We responded to these comment letters on July 9, 2008, September 5, 2008, October 31, 2008 and January 9, 2009, respectively, and provided the SEC with supplemental analyses and information requested by the SEC in these comment letters.

As of the date of the filing of this Annual Report on Form 10-K, we are responding to the comment letter received on February 5, 2009, and have not resolved the comment described above. We believe that we properly account for the payments related to our distribution arrangements. We will continue to work to resolve this comment with the SEC.

ITEM 2. PROPERTIES

We lease approximately 1.5 million square feet of office space and 51 acres of undeveloped land in our headquarters in Mountain View, California. We also lease additional research and development, sales and support offices in the United States in Ann Arbor, Michigan, Atlanta, Georgia, Austin, Texas, Birmingham, Michigan, Boulder, Colorado, Cambridge, Massachusetts, Chapel Hill, North Carolina, Chicago, Illinois, Coppell, Texas, Irvine, California, Kirkland, Washington, Lexington, Massachusetts, Madison, Wisconsin, New York, New York, Overland Park, Kansas, Palo Alto, California, Pittsburgh, Pennsylvania, Reston, Virginia, San Bruno, California, San Francisco, California, Santa Monica, California, Seattle, Washington, Thornton, Colorado and Washington, D.C.

We own land and buildings primarily near our headquarters in Mountain View, California. We own approximately 2.5 million square feet of buildings and approximately 7 acres of developable land to accommodate anticipated future growth.

We maintain leased facilities internationally in Argentina, Australia, Austria, Belgium, Brazil, Canada, China, Czech Republic, Denmark, Egypt, Finland, France, Germany, Greece, Hungary, India, Ireland, Israel, Italy, Japan, Kenya, Korea, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Russia, Singapore, South Africa, Spain, Sweden, Switzerland, Taiwan, Turkey, Ukraine, United Arab Emirates and United Kingdom.

We also operate and own data centers in the United States, the European Union and Asia pursuant to various lease agreements and co-location arrangements.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are involved in a variety of claims, suits, investigations and proceedings arising from the ordinary course of our business, including actions with respect to intellectual property claims, breach of contract claims, labor and employment claims, tax and other matters. Although claims, suits, investigations and proceedings are inherently uncertain and their results cannot be predicted with certainty, we believe that the resolution of our current pending matters will not have a material adverse effect on our business, consolidated financial position, results of operations or cash flow. Regardless of the outcome, litigation can have an adverse impact on us because of defense costs, diversion of management resources and other factors. In addition, it is possible that an unfavorable resolution of one or more such proceedings could in the future materially and adversely affect our financial position, results of operations or cash flows in

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a particular period. See the risk factors *Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our products, services and brand* and *We are, and may in the future be, subject to intellectual property rights claims, which are costly to defend, could require us to pay damages and could limit our ability to use certain technologies in the future* in Part I, Item 1A of this Annual Report on Form 10-K.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our security holders during the fourth quarter of 2008.

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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. Prior to that time, 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.

Fiscal Year 2008 Quarters Ended:	High	Low
March 31, 2008	$ 697.37	$ 412.11
June 30, 2008	602.45	441.00
September 30, 2008	555.68	380.71
December 31, 2008	416.98	247.30

Fiscal Year 2007 Quarters Ended:	High	Low
March 31, 2007	$ 513.00	$ 437.00
June 30, 2007	534.99	452.12
September 30, 2007	571.79	480.46
December 31, 2007	747.24	569.61

Our Class B common stock is neither listed nor traded.

Holders of Record

As of January 30, 2009, there were approximately 2,857 stockholders of record of our Class A common stock, and the closing price of our Class A common stock was $338.53 per share as reported by The Nasdaq Global Select Market. Because many of our shares of Class A common 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 January 30, 2009, there were approximately 105 stockholders of record of our Class B common stock.

Dividend Policy

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

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Stock Performance Graph

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.

The following graph shows a comparison from August 19, 2004 (the date our Class A common stock commenced trading on The Nasdaq Global Select Market) through December 31, 2008 of the cumulative total return for our Class A common stock, The Nasdaq Composite Index, the RDG Internet Composite Index and the S&P 500 Index. Such returns are based on historical results and are not intended to suggest future performance. Data for The Nasdaq Composite Index, the RDG Internet Composite Index and the S&P 500 Index assume reinvestment of dividends. We have never paid dividends on our Class A common stock and have no present plans to do so.

COMPARISON OF 52 MONTH CUMULATIVE TOTAL RETURN*

Among Google Inc., The S&P 500 Index,

The NASDAQ Composite Index And The RDG Internet Composite Index

*$100 invested on 8/19/04 in stock & 7/31/04 in index-including reinvestment of dividends.

Fiscal year ending December 31.

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

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Results of Google s Transferable Stock Option Program

Under our TSO program, which we launched in April 2007, eligible employees are able to sell vested stock options to participating financial institutions in an online auction as an alternative to exercising options in the traditional method and then selling the underlying shares. The following table provides information with respect to sales by our employees of TSOs during the three-month period ended December 31, 2008:

	Aggregate Amounts			Weighted Average Per Share Amounts		
Period (1)	**Number of Shares Underlying TSOs Sold**	**Sale Price of TSOs Sold (in thousands)**	**TSO Premium (2) (in thousands)**	**Exercise Price of TSOs Sold**	**Sale Price of TSOs Sold**	**TSO Premium (2)**
October 1 31	57,927	$ 7,794	$ 2,207	$ 319.28	$ 134.54	$ 38.10
November 1 30	54,084	5,317	2,934	330.06	98.32	54.25
December 1 31						
Total (except weighted average amounts)	**112,011**	**$ 13,111**	**$ 5,141**	**$ 324.48**	**$ 117.05**	**$ 45.90**

(1) The TSO program is generally active during regular NASDAQ trading hours when Google s trading window is open. However, we have the right to suspend the TSO program at any time for any reason, including for maintenance and other technical reasons.

(2) TSO premium is calculated as the difference between (a) the sale price of the TSO and (b) the intrinsic value of the TSO, which we define as the excess, if any, of the price of our Class A common stock at the time of the sale over the exercise price of the TSO.

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ITEM 6. SELECTED FINANCIAL DATA

You should read the following selected consolidated financial data in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operation and our consolidated financial statements and the related notes appearing elsewhere in this Annual Report on Form 10-K.

The consolidated statements of income data for the years ended December 31, 2006, 2007 and 2008 and the consolidated balance sheet data at December 31, 2007, and 2008, are derived from our audited consolidated financial statements appearing elsewhere in this Annual Report on Form 10-K. The consolidated statements of income data for the years ended December 31, 2004 and 2005, and the consolidated balance sheet data at December 31, 2004, 2005 and 2006, 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, (in thousands, except per share amounts)				
	2004	**2005**	**2006**	**2007**	**2008**
Consolidated Statements of Income Data:					
Revenues	$ 3,189,223	$ 6,138,560	$ 10,604,917	$ 16,593,986	$ 21,795,550
Costs and expenses:					
Cost of revenues	1,468,967	2,577,088	4,225,027	6,649,085	8,621,506
Research and development	395,164	599,510	1,228,589	2,119,985	2,793,192
Sales and marketing	295,749	468,152	849,518	1,461,266	1,946,244
General and administrative	188,151	386,532	751,787	1,279,250	1,802,639
Contribution to Google Foundation		90,000			
Non-recurring portion of settlement of disputes with Yahoo	201,000				
Total costs and expenses	2,549,031	4,121,282	7,054,921	11,509,586	15,163,581
Income from operations	640,192	2,017,278	3,549,996	5,084,400	6,631,969
Impairment of equity investments					(1,094,757)
Interest income and other, net	10,042	124,399	461,044	589,580	316,384
Income before income taxes	650,234	2,141,677	4,011,040	5,673,980	5,853,596
Provision for income taxes	251,115	676,280	933,594	1,470,260	1,626,738
Net income	$ 399,119	$ 1,465,397	$ 3,077,446	$ 4,203,720	$ 4,226,858
Net income per share of Class A and Class B common stock					
Basic	$ 2.07	$ 5.31	$ 10.21	$ 13.53	$ 13.46
Diluted	$ 1.46	$ 5.02	$ 9.94	$ 13.29	$ 13.31

	As of December 31, (in thousands)				
	2004	**2005**	**2006**	**2007**	**2008**
Consolidated Balance Sheet Data:					
Cash, cash equivalents and marketable securities	$ 2,132,297	$ 8,034,247	$ 11,243,914	$ 14,218,613	$ 15,845,771
Total assets	3,313,351	10,271,813	18,473,351	25,335,806	31,767,575
Total long-term liabilities	43,927	107,472	128,924	610,525	1,226,623
Deferred stock-based compensation	(249,470)	(119,015)			
Total stockholders equity	2,929,056	9,418,957	17,039,840	22,689,679	28,238,862

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

In addition to historical information, this Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements include, among other things, statements concerning our expectations:

regarding the growth and growth rate of our operations, business, revenues, operating margins;

that seasonal fluctuations in internet usage and traditional advertising seasonality are likely to affect our business;

that growth in advertising revenues from our web sites will continue to exceed that from our Google Network members web sites;

regarding our future stock-based compensation charges including charges related to our employee stock options exchange program;

regarding the structure and timing of our employee stock option exchange program;

that we will continue to pay most of the Google AdSense fees we receive from advertisers to our Google Network members;

that we will continue to take steps to improve the relevance of the ads we deliver;

that we may continue to take steps to reduce the number of accidental clicks;

that we will continue to make investments and acquisitions;

that our cost of revenues and traffic acquisition costs may increase in dollars and as a percentage of revenues;

regarding the increase of research and development and sales and marketing expenses in the future;

regarding the increase of costs related to hedging activity under our foreign exchange risk management program;

regarding fluctuations in paid clicks;

regarding the sufficiency of our existing cash, cash equivalents, marketable securities and cash generated from operations;

regarding fluctuations in our effective tax rate;

regarding continued investments in international markets;

as well as other statements regarding our future operations, financial condition and prospects and business strategies. These forward-looking statements are subject to certain risks and uncertainties that 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 heading Risk Factors in Part I, Item 1A of this Annual Report on Form 10-K and those discussed in other documents we file with the Securities and Exchange Commission. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

The following discussion and analysis of our financial condition and results of operations should be read together with our Consolidated Financial Statements and related notes included elsewhere in this Annual Report on Form 10-K.

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Overview

Google is a global technology leader focused on improving the ways people connect with information. Our innovations in web search and advertising have made our web site a top internet property and our brand one of the most recognized in the world. Our mission is to organize the world s information and make it universally accessible and useful. We serve three primary constituencies:

Users. We provide users with products and services that enable people to more quickly and easily find, create and organize information that is useful to them.

Advertisers. We provide advertisers with cost-effective ways to deliver online ads, as well as ads on traditional media such as TV and radio (offline ads), to customers across Google sites and through the Google Network, which is the network of online and offline third parties that use our advertising programs to deliver relevant ads with their search results and content.

Google Network Members and Other Content Providers. We provide the online and offline members of our Google Network with our Google AdSense programs. These include programs through which we distribute our advertisers AdWords ads for display on the web sites of our Google Network members as well as programs to deliver ads on television and radio broadcasts. We share most of the fees these ads generate with our Google Network members, thereby creating an important revenue stream for them. In addition, we have entered into arrangements with other content providers under which we distribute or license their video and other content, and we may display ads next to or as part of this content on the pages of our web sites and our Google Network members web sites. We share most of the fees these ads generate with these content providers and our Google Network members, thereby creating an important revenue stream for these partners.

How We Generate Revenue

Advertising revenues made up 99% of our revenues in 2006 and 2007 and 97% of our revenues in 2008. We derive most of our additional revenues from offering internet ad serving and management services to advertisers and ad agencies, the license of our web search technology and the license of our search solutions to enterprises.

Google AdWords is our automated online program that enables advertisers to place targeted text-based and display ads on our web sites and our Google Network members web sites. 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 web sites and our Google Network members web sites as specified by the advertiser. For advertisers using our AdWords cost-per-click pricing, we recognize as revenue the fees charged advertisers each time a user clicks on one of the ads that appears next to the search results on our web sites or next to the search results or content on our Google Network members web sites. For advertisers using our AdWords cost-per-impression pricing, we recognize as revenue the fees charged advertisers each time their ads are displayed on the Google Network members web sites. Our AdWords agreements are generally terminable at any time by our advertisers.

Google AdSense refers to the online programs through which we distribute our advertisers AdWords ads for display on the web sites of our Google Network members as well as programs to deliver ads on television and radio broadcasts. Our AdSense programs include AdSense for search and AdSense for content.

AdSense for search is our online service for distributing relevant ads from our advertisers for display with search results on our Google Network members sites. To use AdSense for search, most of our AdSense for search partners add Google search functionality to their web pages in the form of customizable Google search boxes. When visitors of these web sites search either the web site or the internet using these customizable search boxes, we display relevant ads on the search results pages, targeted to match user search queries. Ads shown through AdSense for search are text ads.

AdSense for content is our online service for distributing ads from our advertisers that are relevant to content on our Google Network members web sites. Under this program, we use automated technology to analyze the meaning of the

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content on the web page and serve relevant ads based on the meaning of such content. For example, a web page on an automotive blog that contains an entry about vintage cars might display ads for vintage car parts or vintage car shows. These ads are displayed in spaces that our AdSense for content partners have set aside on their web sites. AdSense for content allows a variety of ad types to be shown, including text ads, image ads, Google Video Ads, link units (which are sets of clickable links to topic pages related to page content), themed units (which are regular text ads with graphic treatments that change seasonally and by geography) and gadget ads (which are customized mini-sites that run as ads on AdSense publisher web sites).

For our online AdSense program, our advertisers pay us a fee each time a user clicks on one of our advertisers ads displayed on our Google Network members web sites or, for those advertisers who choose our cost-per-impression pricing, as their ads are displayed. To date, we have paid most of these advertiser fees to our Google Network members, and we expect to continue doing so for the foreseeable future. We recognize these advertiser fees as revenue and the portion of the advertiser fee we pay to our Google Network members as traffic acquisition costs under cost of revenues. In some cases, we guarantee our Google Network members minimum revenue share payments based on their achieving defined performance terms, such as number of search queries or advertisements displayed. Google Network members do not pay any fees associated with the use of our AdSense program on their web sites.

Our agreements with Google Network members consist largely of uniform online click-wrap agreements that members enter into by interacting with our registration web sites. The standard agreements have no stated term and are terminable at will. Agreements with our larger members are individually negotiated. Both the standard agreements and the negotiated agreements contain provisions requiring us to share with the Google Network member most of the advertiser fees generated by users clicking on ads on the Google Network member s web site or, for advertisers who choose our cost-per-impression pricing, as the ads are displayed on the Google Network member s web site.

Google TV Ads enables advertisers, operators and programmers to buy, schedule, deliver and measure ads on television. We recognize as revenue the fees charged advertisers each time an ad is displayed on television. Google Audio Ads enables the distribution of our advertisers ads for broadcast on radio programs. We recognize as revenue the fees charged advertisers each time an ad is broadcasted or a listener responds to that ad.

We have entered into arrangements with certain content providers under which we distribute or license their video and other content. Our agreements with content providers are typically standard agreements with no stated term and are terminable at will. Agreements with our larger members are individually negotiated. Both the standard agreements and the negotiated agreements contain provisions requiring us to pay the content providers for the content we license. In a number of these arrangements, we display ads on the pages of our web sites and our Google Network members web sites from which the content is viewed and share most of the fees these ads generate with the content providers and Google Network members. We recognize these advertiser fees as revenue. We recognize the portion of the advertiser fees we pay to our content providers as content acquisition costs under cost of revenues and the portion we pay to our Google Network members as traffic acquisition costs. In some cases, we guarantee our content providers minimum revenue share or other payments.

In the first quarter of 2008, we acquired DoubleClick, a company that offers online ad serving and management services to advertisers, ad agencies and web site publishers. Fees derived from hosted, or web-based applications, such as the fees we receive for DoubleClick, are recognized as licensing and other revenues in the period the advertising impressions are delivered.

We believe the factors that influence the success of our advertising programs include the following:

- The relevance, objectivity and quality of our search results and the relevance and quality of ads displayed with each search results page.

- The number of searches initiated at our web sites and our Google Network members web sites and the underlying purpose of these searches (for instance, whether they are for academic research, to find a news article, or to find a product or service).

- The number and prominence of ads displayed on our web sites and our Google Network members web sites.

The number of visits to, and the content of, our Google Network members web sites and certain of our web sites and the relevance and quality of the ads we display next to this content.

The advertisers return on investment from advertising campaigns on our web sites or our Google Network members web sites compared to other forms of advertising.

The total advertising spending budgets of each advertiser.

The number of advertisers and the breadth of items advertised.

The amount we ultimately pay our Google Network members, distribution partners and our content providers for traffic, access points and content compared to the amount of revenue we generate.

Our minimum fee per click.

Trends in Our Business

Our business has grown rapidly since inception, resulting in substantially increased revenues, and we expect that our business will continue to grow. However, our revenue growth rate has generally declined over time, and we expect it will continue to do so as a result of a number of factors including increasing competition, the difficulty of maintaining growth rates as our revenues increase to higher levels and increasing maturity of the online advertising market in certain countries. In addition, the current general economic downturn may result in fewer commercial queries by our users and may cause advertisers to reduce the amount they spend on online advertising, which could negatively affect the growth rate of our revenues.

The main focus of our advertising programs is to provide relevant and useful advertising to our users, reflecting our commitment to constantly improve their overall web experience. As a result, we expect to continue to take steps to improve the relevance of the ads displayed on our web sites and our Google Network members web sites. These steps include not displaying ads that generate low click-through rates or that send users to irrelevant or otherwise low quality sites and terminating our relationships with those Google Network members whose web sites do not meet our quality requirements. We may also continue to take steps to reduce the number of accidental clicks by our users. These steps could negatively affect the growth rate of our revenues.

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 and paid click growth rates.

The operating margin we realize on revenues generated from ads placed on our Google Network members web sites through our AdSense program is significantly lower than the operating margin we realize from revenues generated from ads placed on our web sites because most of the advertiser fees from ads served on Google Network members web sites are shared with our Google Network members. For the past four years, growth in advertising revenues from our web sites has exceeded that from our Google Network members web sites. This trend has had a positive impact on our operating margins, and we expect that this will continue for the foreseeable future, although the relative rate of growth in revenues from our web sites compared to the rate of growth in revenues from our Google Network members web sites may vary over time.

We continue to invest in building the necessary employee and systems infrastructures required to manage our growth and develop and promote our products and services, and this may cause our operating margins to decrease. We have experienced and expect to continue to experience growth in our operations as we build our research and development programs, expand our base of users, advertisers, Google Network members, and content providers, and increase our presence in international markets. Also, we have acquired and expect to continue to acquire businesses and other assets from time to time. These acquisitions generally enhance the breadth and depth of our expertise in engineering and other functional areas, our technologies and our product offerings. Our full-time employee headcount has increased over the last 12 months, growing from 16,805 at December 31, 2007 to 20,222 at December 31, 2008. We have recently made efforts to improve the discipline of our hiring process and to focus on better managing our expense growth. However, we expect to continue to invest in our business, and this may cause our operating margins to decrease.

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We expect our cost of revenues to continue to increase in dollars and may increase as a percentage of revenues in 2009 and in future periods, primarily as a result of forecasted increases in traffic acquisition costs, data center costs and credit card and other transaction fees, as well as content acquisition costs. In particular, traffic acquisition costs as a percentage of advertising revenues may increase in the future if we are unable to continue to improve the monetization or generation of revenue from traffic on our web sites and our Google Network members web sites, particularly with those members to whom we have guaranteed minimum revenue share payments.

Our international revenues have grown as a percentage of our total revenues to 51% in 2008 from 48% in 2007. This increase in the portion of our revenues derived from international markets results largely from increased acceptance of our advertising programs, increases in our direct sales resources and customer support operations and our continued progress in developing localized versions of our products in these international markets, as well as an increase in the value of the Euro, the Japanese yen and other foreign currencies relative to the U.S. dollar in 2008 compared to 2007. The increase in the proportion of international revenues derived from international markets increases our exposure to fluctuations in foreign currency to U.S. dollar exchange rates. For example, in the fourth quarter of 2008, the strengthening of the U.S. dollar relative to other foreign currencies (primarily the Euro and the British pound) had an unfavorable impact on our international revenues. We have a foreign exchange hedging program that is designed to reduce our exposure to fluctuations in foreign currencies, however this program will not fully offset the effect of fluctuations on our revenues and earnings.

Recent Developments

On February 3, 2009, we commenced an exchange offer to allow employees the opportunity to exchange all or a portion of their eligible outstanding stock options for the same number of new options. We expect that new options will have an exercise price equal to the closing price per share of our common stock on March 6, 2009 and that stock options with exercise prices above this closing price will be eligible for the exchange offer. Generally, all employees with options are eligible to participate in the program (Eric Schmidt, Sergey Brin, and Larry Page do not hold options). The exchange offer is currently set to expire at 6 a.m. Pacific Time on March 9, 2009.

The number of common shares subject to outstanding options will not change as a result of the exchange offer. New options issued as part of the exchange offer will be subject to a new vesting schedule which adds 12 months to the original applicable vesting dates. In addition, new options will vest no sooner than six months after the close of the offer period.

We expect to take a modification charge of approximately $400 million over the vesting periods of the new options which will range from six months to five years. Assuming our exchange offer proceeds according to our planned timeline, this modification charge will be recorded as additional stock-based compensation beginning in the first quarter of 2009. This modification charge is estimated assuming an exchange price of approximately $350 and that all eligible underwater options will be exchanged, and the actual amount of the modification charge is likely to be different from the estimate provided above.

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Results of Operations

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

	Year Ended December 31,			Three Months Ended	
	2006	2007	2008	September 30, 2008	December 31, 2008
				(unaudited)	
Consolidated Statements of Income Data:					
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Costs and expenses:					
Cost of revenues	39.8	40.1	39.6	39.2	38.4
Research and development	11.6	12.8	12.8	12.7	12.9
Sales and marketing	8.0	8.8	8.9	9.2	8.9
General and administrative	7.1	7.7	8.3	9.2	7.2
Total costs and expenses	66.5	69.4	69.6	70.3	67.4
Income from operations	33.5	30.6	30.4	29.7	32.6
Impairment of equity investments			(5.0)		(19.2)
Interest income and other, net	4.3	3.6	1.5	0.4	1.3
Income before income taxes	37.8	34.2	26.9	30.1	14.7
Provision for income taxes	8.8	8.9	7.5	6.8	8.0
Net income	29.0%	25.3%	19.4%	23.3%	6.7%

Revenues

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

	Year Ended December 31,			Three Months Ended	
	2006	2007	2008	September 30, 2008	December 31, 2008
				(unaudited)	
Advertising Revenues					
Google web sites	$ 6,332.8	$ 10,624.7	$ 14,413.8	$ 3,672.1	$ 3,811.2
Google Network web sites	4,159.8	5,787.9	6,714.7	1,679.9	1,693.4
Total advertising revenues	10,492.6	16,412.6	21,128.5	5,352.0	5,504.6
Licensing and other revenues	112.3	181.4	667.1	189.4	196.3
Revenues	$ 10,604.9	$ 16,594.0	$ 21,795.6	$ 5,541.4	$ 5,700.9

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

	Year Ended December 31,			Three Months Ended	
	2006	2007	2008	September 30, 2008	December 31, 2008

				(unaudited)	
Advertising Revenues					
Google web sites	60%	64%	66%	67%	67%
Google Network web sites	39	35	31	30	30
Total advertising revenues	99	99	97	97	97
Google web sites as % of advertising revenues	60	65	68	69	69
Google Network web sites as % of advertising revenues	40	35	32	31	31
Licensing and other revenues	1%	1%	3%	3%	3%

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Growth in our revenues from the three months ended September 30, 2008 to the three months ended December 31, 2008 results primarily from the growth in advertising revenues for Google web sites and to a lesser extent, Google Network members web sites. Our advertising revenue growth for Google web sites and Google Network members web sites resulted primarily from an increase in the number of paid clicks through our advertising programs, partially offset by the decrease in the average fees paid by our advertisers. The increase in the number of paid clicks through our advertising programs was due to an increase in aggregate traffic both on our web sites and the websites of our Google Network members, certain monetization improvements and the continued global expansion of our products, our advertiser base and our user base.

Growth in our revenues from 2007 to 2008 and from 2006 to 2007 resulted primarily from growth in advertising revenues for Google web sites, and to a lesser extent, Google Network members web sites. Our advertising revenue growth for Google web sites and Google Network members web sites resulted primarily from an increase in the number of paid clicks through our advertising programs.

Improvements in our ability to ultimately monetize increased traffic primarily relate to enhancing the end user experience, including providing end users with ads that are more relevant to their search queries or to the content on the Google Network members web sites they visit. These improvements have included, for instance, a change to the formula used to determine which ads appear at the top of our search results pages, a change to consider not only a user s current search query, but also their immediately preceding query to determine the ads displayed on our search results pages, a change to the clickable area around our AdSense for content text-based ads to only the title and URL to reduce the number of accidental clicks, a change to replace minimum bids with first-page bids which is an estimate of the bid it would take for an ad to reach the first page of our search results pages, as well as changes to further enhance the accuracy of our quality scoring, which is our measurement of an ad s quality.

Our sequential quarterly revenue growth rate decreased from 3.2% for the three months ended September 30, 2008, to 2.9% for the three months ended December 31, 2008.

The sequential quarterly revenue growth rate from Google web sites decreased from 4.0% for the three months ended September 30, 2008, to 3.8% for the three months ended December 31, 2008. The sequential quarterly revenue growth rate from our Google Network members web sites decreased from 1.5% for the three months ended September 30, 2008, to 0.8% for the three months ended December 31, 2008. The decrease in the sequential quarterly revenue growth rates from Google web sites and Google Network members web sites is primarily due to a more unfavorable impact as a result of the strengthening of the U.S. dollar relative to other foreign currencies (primarily the Euro and the British pound) and a greater decline in average fees paid, partially offset by higher traffic growth and an increase in gains realized from our foreign exchange risk management program. The sequential quarterly revenue growth from Google web sites has been greater than that from our Google Network members web sites primarily as a result of higher traffic growth and certain monetization improvements on Google web sites. We expect that our revenue growth rates will generally decline in the future as a result of increasing competition and the difficulty of maintaining growth rates as our revenues increase to higher levels. In addition, the current general economic downturn may result in fewer commercial queries by our users and may cause advertisers to reduce the amount they spend on online advertising, which could negatively affect the growth rate of our revenues.

Aggregate paid clicks on Google web sites and our Google Network members web sites increased approximately 10% from the three months ended September 30, 2008 to the three months ended December 31, 2008, approximately 18% from the year ended 2007 to the year ended 2008 and approximately 43% from the year ended 2006 to the year ended 2007. In general, the increase in paid clicks has historically correlated with increases in our revenues. However, the rate of increase in paid clicks, and its correlation with the rate of increase in revenues, may fluctuate from quarter to quarter based on various factors including seasonality, advertiser competition for keywords, the revenue growth rates on our web sites compared to those of our Google Network members and the current general economic downturn. In addition, traffic growth in emerging markets compared to more mature markets and across various advertising verticals also contributes to these fluctuations.

We believe that the increase in the number of paid clicks through our programs is substantially the result of our commitment to improving the relevance and quality of both our search results and the advertisements displayed, which we

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believe results in a better user experience, which in turn results in more searches, advertisers, and Google Network members and other partners.

Revenues by Geography

Domestic and international revenues as a percentage of consolidated revenues, determined based on the billing addresses of our advertisers, are set forth below.

	Year Ended December 31,			Three Months Ended	
				September 30,	December 31,
	2006	2007	2008	2008	2008
				(unaudited)	
United States	57%	52%	49%	49%	50%
United Kingdom	15%	15%	14%	14%	12%
Rest of the world	28%	33%	37%	37%	38%

The decrease in international revenues as a percentage of total revenue from the three months ended September 30, 2008 to the three months ended December 31, 2008 resulted primarily from the strengthening of the U.S. dollar relative to other foreign currencies (primarily the Euro and the British pound) over these periods, partially offset by the increase in gains realized from our foreign exchange risk management program.

The annual growth in international revenues resulted largely from increased acceptance of our advertising programs and increases in our direct sales resources and customer support operations in international markets and our continued progress in developing localized versions of our products for these international markets as well as an increase in the value of the Euro, the Japanese yen and other foreign currencies compared to the U.S. dollar over these periods.

The strengthening of the U.S. dollar relative to other foreign currencies (primarily the Euro and the British pound) in the three months ended December 31, 2008 compared to the three months ended September 30, 2008 had an unfavorable impact on our international revenues (international revenues increased $16.5 million during this period). Had foreign exchange rates remained constant in these periods, our total revenues in the three months ended December 31, 2008 would have been approximately $334 million, or 5.9%, higher. This is before consideration of hedging gains recognized to revenue of $34.2 million and $128.9 million in the three months ended September 30, 2008 and December 31, 2008.

The weakening of the U.S. dollar relative to other foreign currencies (primarily the Euro and the Japanese yen) in the twelve months ended December 31, 2008 compared to the twelve months ended December 31, 2007 had a favorable impact on our international revenues (international revenues increased $3.3 billion during this period). Had foreign exchange rates remained constant in these periods, our total revenues would have been approximately $353.5 million, or 1.6%, lower. This is before consideration of hedging gains recognized to revenue of zero and $167.8 million in the twelve months ended December 31, 2007 and December 31, 2008.

Although we expect to continue to make investments in international markets, they may not result in an increase in our international revenues as a percentage of total revenues in 2009 or thereafter. See Note 15 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K for additional information about geographic areas.

Costs and Expenses

Cost of Revenues.

Cost of revenues consists primarily of traffic acquisition costs. Traffic acquisition costs consist of amounts ultimately paid to our Google Network members under AdSense arrangements and to certain other partners (our distribution partners) who distribute our toolbar and other products (collectively referred to as access points) or otherwise direct search queries to our web site (collectively referred to as distribution arrangements). These amounts are primarily based on the revenue share arrangements with our Google Network members and distribution partners.

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Certain AdSense agreements obligate us to make guaranteed minimum revenue share payments to Google Network members based on their achieving defined performance terms, such as number of search queries or advertisements displayed. These fees may be paid in advance or in arrears and are non-refundable but are subject to adjustment based on the achievement of the defined performance terms. In addition, the arrangements are terminable at will, although under the terms of certain contracts we or our Google Network members may be subject to penalties in the event of early termination. To the extent we expect revenues generated under an arrangement to exceed the guaranteed minimum revenue share payments, we recognize traffic acquisition costs on a contractual revenue share basis or on a basis proportionate to forecasted revenues, whichever is greater. Otherwise, we recognize the guaranteed revenue share payments as traffic acquisition costs on a straight-line basis over the term of the related agreements. For other AdSense agreements under which we only pay on a contractual revenue share basis, we recognize the revenue share obligations as traffic acquisition costs at the same time the related revenue is recognized. Also, concurrent with the commencement of a small number of AdSense and other agreements, we have purchased certain items from, or provided other consideration to, our Google Network members and partners. We have determined that certain of these amounts are prepaid traffic acquisition costs and are amortized on a straight-line basis over the terms of the related agreements.

In addition, certain distribution arrangements require us to pay our partners based on a fee per access point delivered and not exclusively or at all based on revenue share. The fees are non-refundable. Further, the arrangements are terminable at will, although under the terms of certain contracts, we or our distribution partners may be subject to penalties in the event of early termination. We recognize fees under these arrangements over the estimated useful lives of the access points (two years) to the extent we can reasonably estimate those lives and they are longer than one year, or based on any contractual revenue share, if greater. Otherwise, the fees are charged to expense as incurred. The estimated useful life of the access points is based on the historical average period of time they generate traffic and revenue.

Cost of revenues also includes the expenses associated with the operation of our data centers, including depreciation, labor, energy and bandwidth costs, credit card and other transaction fees related to processing customer transactions, amortization of acquired intangible assets as well as content acquisition costs. We have entered into arrangements with certain content providers under which we distribute or license their video and other content. In a number of these arrangements we display ads on the pages of our web sites and our Google Network members web sites from which the content is viewed and share most of the fees these ads generate with the content providers and the Google Network members. To the extent we are obligated to make guaranteed minimum revenue share or other payments to our content providers, we recognize content acquisition costs equal to the greater of the following three amounts: the contractual revenue share amount, if any, an amount that is based on the number of times the content is displayed, or an amount calculated on a straight-line basis over the terms of the agreements. 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,			Three Months Ended	
	2006	2007	2008	September 30, 2008	December 31, 2008
				(unaudited)	
Cost of revenues	$ 4,225.0	$ 6,649.1	$ 8,621.5	$ 2,173.4	$ 2,190.0
Cost of revenues as a percentage of revenues	39.8%	40.1%	39.6%	39.2%	38.4%

	Year Ended December 31,			Three Months Ended	
	2006	2007	2008	September 30, 2008	December 31, 2008
				(unaudited)	
Traffic acquisition costs related to AdSense arrangements	$ 3,134.6	$ 4,543.0	$ 5,284.3	$ 1,328.4	$ 1,293.3
Traffic acquisition costs related to distribution arrangements	174.2	390.9	654.7	166.8	190.1
Total traffic acquisition costs	$ 3,308.8	$ 4,933.9	$ 5,939.0	$ 1,495.2	$ 1,483.4
Traffic acquisition costs as a percentage of advertising revenues	31.5%	30.1%	28.1%	27.9%	26.9%

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Cost of revenues increased $16.6 million from the three months ended September 30, 2008 to the three months ended December 31, 2008. The increase was primarily related to an increase in data center costs of $27.8 million as a result of the depreciation of additional information technology assets and data center buildings. This decrease in traffic acquisition costs was primarily a result of more revenues realized from Google Network members to whom we pay lower revenue share and less revenues realized from those members to whom we pay more revenue share, partially offset by more traffic acquisition costs recognized due to more distribution fees paid and more traffic directed to our web site under our distribution arrangements. The decrease in traffic acquisition costs as a percentage of advertising revenues was primarily due to an increase in the proportion of advertising revenues coming from our web sites rather than from our Google Network members web sites as well as an increase in revenue recognized from gains realized under our foreign exchange risk management program. The traffic acquisition costs associated with revenues generated from ads placed on our web sites is considerably lower than the traffic acquisition costs associated with revenues generated from ads placed on our Google Network members web sites.

Cost of revenues increased $1,972.4 million from 2007 to 2008. Over the same period there was an increase in traffic acquisition costs of $1,005.1 million primarily resulting from more advertiser fees generated through our AdSense program, and to a lesser extent, an increase of $675.2 million in data center costs primarily resulting from the depreciation of additional information technology assets and data center buildings as well as additional labor required to manage the data centers. In addition, there was an increase in the amortization of developed technology of $133.0 million resulting primarily from our DoubleClick acquisition, and an increase in expenses related to acquiring content on our web sites of $106.0 million. The decrease in traffic acquisition costs as a percentage of advertising revenues was primarily due to an increase in the proportion of advertising revenues coming from our web sites rather than from our Google Network members web sites.

Cost of revenues increased $2,424.1 million from 2006 to 2007. There was an increase in traffic acquisition costs of $1,625.1 million primarily resulting from more advertiser fees generated through our AdSense program. Over this same period there was an increase in data center costs of $565.2 million primarily resulting from the depreciation of additional information technology assets as well as additional labor required to manage the data centers. In addition, there was an increase in expenses related to acquiring content on our web sites of $80.7 million, an increase in the amortization of developed technology of $56.0 million resulting from acquisitions in the current and prior years and an increase in credit card and other transaction processing fees of $44.5 million resulting from more advertiser fees being generated through AdWords as well as transaction processing fees related to Google Checkout in 2007. The increase in cost of revenues as a percentage of revenues was primarily the result of the depreciation of additional information technology assets purchased in the current and prior periods and other additional data center costs as well as the increased expenses related to acquiring content on our web sites, which more than offset the proportionately greater revenues from our web sites compared to our Google Network members web sites. The decrease in traffic acquisition costs as a percentage of advertising revenues was primarily the result of proportionately greater revenues from our web sites compared to our Google Network members web sites.

We expect cost of revenues to continue to increase in dollars and may increase as a percentage of revenues in 2009 and in future periods, primarily as a result of forecasted increases in traffic acquisition costs, data center costs, credit card and other transaction fees, content acquisition and other costs. Traffic acquisition costs as a percentage of advertising revenues may fluctuate in the future based on a number of factors, including the following:

- The relative growth rates of revenues from our web sites and from our Google Network members web sites.

- Whether we are able to enter into more AdSense arrangements that provide for lower revenue share obligations or whether increased competition for arrangements with existing and potential Google Network members results in less favorable revenue share arrangements, including arrangements with guaranteed minimum payments.

- Whether we are able to continue to improve the monetization of traffic on our web sites and our Google Network members web sites, particularly with those members to whom we have guaranteed minimum revenue share payments.

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The relative growth rates of expenses associated with distribution arrangements and the related revenues generated, including whether we share with certain existing and new distribution partners proportionately more of the aggregate advertising fees that we earn from paid clicks derived from search queries these partners direct to our web sites.

Research and Development.

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

	Year Ended December 31,			Three Months Ended	
	2006	2007	2008	September 30, 2008	December 31, 2008
				(unaudited)	
Research and development expenses	$ 1,228.6	$ 2,120.0	$ 2,793.2	$ 704.6	$ 733.3
Research and development expenses as a percentage of revenues	11.6%	12.8%	12.8%	12.7%	12.9%

Research and development expenses consist primarily of compensation and related costs for personnel responsible for the research and development of new products and services, as well as significant improvements to existing products and services. We expense research and development costs as they are incurred.

Research and development expenses increased $28.7 million from the three months ended September 30, 2008 to the three months ended December 31, 2008. This increase was primarily due to an increase in certain labor and facilities related costs of $23.4 million and an increase in stock-based compensation expense of $12.8 million. These increases were partially offset by a decrease in consulting costs of $14.7 million.

Research and development expenses increased $673.2 million from the year ended December 31, 2007 to the year ended December 31, 2008. This increase was primarily due to an increase in labor and facilities related costs of $387.1 million as a result of a 25% increase in research and development headcount. In addition, there was an increase in stock-based compensation expense of $162.6 million.

Research and development expenses increased $891.4 million from the year ended December 31, 2006 to the year ended December 31, 2007. This increase was primarily due to an increase in labor and facilities related costs of $708.0 million as a result of a 57% increase in research and development headcount, including an increase in stock-based compensation expense of $282.3 million. In addition, there was an increase in depreciation and related expenses of $72.3 million due to our increased capital expenditures.

We expect that research and development expenses will continue to increase in dollar amount and may increase as a percentage of revenues in 2009 and future periods because we expect to employ more research and development personnel on average compared to prior periods and build the infrastructure required to support the development of new, and improve existing, products and services.

Sales and Marketing

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

	Year Ended December 31,			Three Months Ended	
	2006	2007	2008	September 30, 2008	December 31, 2008
				(unaudited)	
Sales and marketing expenses	$ 849.5	$ 1,461.3	$ 1,946.2	$ 508.8	$ 506.0
Sales and marketing expenses as a percentage of revenues	8.0%	8.8%	8.9%	9.2%	8.9%

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Sales and marketing expenses consist primarily of compensation and related costs for personnel engaged in customer service, sales, and sales support functions, as well as advertising and promotional expenditures.

Sales and marketing expenses decreased $2.8 million from the three months ended September 30, 2008 to the three months ended December 31, 2008.

Sales and marketing expenses increased $484.9 million from the year ended December 31, 2007 to the year ended December 31, 2008. This increase was primarily due to an increase in labor and facilities related costs of $373.1 million mostly as a result of a 20% increase in sales and marketing headcount. In addition, there was an increase in stock-based compensation expense of $74.4 million.

Sales and marketing expenses increased $611.8 million from the year ended December 31, 2006 to the year ended December 31, 2007. This increase was primarily due to an increase in labor and facilities related costs of $435.7 million mostly as a result of a 52% increase in sales and marketing headcount, including an increase in stock-based compensation expense of $72.2 million, and an increase in depreciation and related expense of $74.2 million due to our increased capital expenditures. In addition, there was an increase in promotional and advertising expense of $37.5 million and an increase in travel and entertainment expense of $28.9 million.

We anticipate that sales and marketing expenses may continue to increase in dollar amount and as a percentage of revenues in 2009 and future periods as we continue to expand our business on a worldwide basis.

General and Administrative

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

	Year Ended December 31,			Three Months Ended	
	2006	2007	2008	September 30, 2008	December 31, 2008
				(unaudited)	
General and administrative expenses	$ 751.8	$ 1,279.3	$ 1,802.6	$ 507.1	$ 411.4
General and administrative expenses as a percentage of revenues	7.1%	7.7%	8.3%	9.2%	7.2%

General and administrative expenses consist primarily of compensation and related costs for personnel and facilities related to our finance, human resources, facilities, information technology and legal organizations, and fees for professional services. Professional services are principally comprised of outside legal, audit, information technology consulting and outsourcing services.

General and administrative expenses decreased $95.7 million from the three months ended September 30, 2008 to the three months ended December 31, 2008. This decrease was primarily related to the settlement agreement with the Authors Guild and the Association of American Publishers (AAP) under which we recognized a $95.1 million of expense in the three months ended September 30, 2008.

General and administrative expenses increased $523.3 million from the year ended December 31, 2007 to the year ended December 31, 2008. This increase was primarily related to an increase in professional services of $243.0 million, the majority of which were related to legal costs, including the aforementioned legal settlement with the Authors Guild and the AAP. In addition, there was an increase in labor and facilities related costs of $137.8 million, primarily as a result of a 9% increase in general administrative headcount from 2007 to 2008, and an increase in bad debt expense of $96.1 million due to increased risk in this area as a result of the current general economic downturn.

General and administrative expenses increased $527.5 million from the year ended December 31, 2006 to the year ended December 31, 2007. This increase was primarily due to an increase in labor and facilities related costs of $306.4

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million, primarily as a result of a 72% increase in general and administrative headcount from 2006 to 2007, including an increase in stock-based compensation expense of $51.3 million and an increase in professional services fees of $95.1 million. In addition, there was an increase in bad debt expense of $35.6 million. The additional personnel, professional services and bad debt expenses are primarily the result of the growth of our business.

Stock-Based Compensation

The following table presents our stock-based compensation and stock-based compensation as a percentage of revenues for the periods presented (dollars in millions):

	Year Ended December 31,			Three Months Ended	
	2006	2007	2008	September 30, 2008	December 31, 2008
				(unaudited)	
Stock-based compensation	$ 458.1	$ 868.6	$ 1,119.8	$ 280.0	$ 286.2
Stock-based compensation as a percentage of revenues	4.3%	5.2%	5.1%	5.1%	5.0%

Stock-based compensation increased $6.2 million from the three months ended September 30, 2008 to the three months ended December 31, 2008.

Stock-based compensation increased $251.2 million from the year ended December 31, 2007 to the year ended December 31, 2008. This increase was primarily due to additional stock awards issued to existing and new employees.

Stock-based compensation increased $410.5 million from the year ended December 31, 2006 to the year ended December 31, 2007. The increase was primarily due to additional stock-based compensation associated with unvested stock awards issued as a result of our acquisition of YouTube in the fourth quarter of 2006, the modification charge recognized as a result of the launch of our TSO program in the second quarter of 2007, as well as additional awards granted in 2007 to new and existing employees.

On February 3, 2009, we commenced an exchange offer to allow employees the opportunity to exchange all or a portion of their eligible outstanding stock options for the same number of new options. We expect that new options will have an exercise price equal to the closing price per share of our common stock on March 6, 2009 and that stock options with exercise prices above this closing price will be eligible for the exchange offer. Generally, all employees with options are eligible to participate in the program (Eric Schmidt, Sergey Brin, and Larry Page do not hold options). The exchange offer is currently set to expire at 6 a.m. Pacific Time on March 9, 2009.

The number of common shares subject to outstanding options will not change as a result of the exchange offer. New options issued as part of the exchange offer will be subject to a new vesting schedule which adds 12 months to the original applicable vesting dates. In addition, new options will vest no sooner than six months after the close of the offer period.

We expect to take a modification charge of approximately $400 million over the vesting periods of the new options which will range from six months to five years. Assuming our exchange offer proceeds according to our planned timeline, this modification charge will be recorded as additional stock-based compensation beginning in the first quarter of 2009. This modification charge is estimated assuming an exchange price of approximately $350 and that all eligible underwater options will be exchanged, and the actual amount of the modification charge is likely to be different from the estimate provided above.

Before the modification charge discussed above, we expect stock-based compensation to be approximately $1.0 billion in 2009 and $1.4 billion thereafter. These amounts do not include stock-based compensation related to stock awards that have been and may be granted to employees and directors subsequent to December 31, 2008 and stock awards that have been or may be granted to non-employees. In addition, to the extent forfeiture rates are different from what we have anticipated, stock-based compensation related to these awards will be different from our expectations.

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Impairment of Equity Investments

We have reviewed our equity investments for impairment in accordance with FSP SFAS 115-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* (FSP 115-1) and determined that certain of these investments are impaired. After consideration of the duration and severity of the impairment, as well as the reasons for the decline in value and the potential recovery periods, we believe that such impairments are other-than-temporary at December 31, 2008. As a result, in the fourth quarter of 2008, we recorded a non-cash impairment charge of $1.09 billion, primarily comprising of $726.0 million and $355.0 million related to our investments in America Online, Inc. (AOL) and Clearwire Corporation (Clearwire). See Note 3 of Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

Interest Income and Other, Net

Interest income and other, net increased $48.7 million from the three months ended September 30, 2008 to the three months ended December 31, 2008. This increase was primarily a result of a decrease in net foreign exchange related costs of $32.1 million and an increase in realized gains on sales of marketable securities of $18.5 million.

Interest income and other, net decreased $273.2 million from the year ended December 31, 2007 to the year ended December 31, 2008. This decrease was primarily driven by an increase in net foreign exchange related costs of $155.7 million primarily due to more hedging activity under our foreign exchange risk management program, and a decrease in interest income of $169.7 million due to lower yields on our cash and investment balances. These decreases were partially offset by an increase in realized gains on sales of marketable securities of $43.0 million.

Interest income and other, net increased $128.5 million from the year ended December 31, 2006 to the year ended December 31, 2007. This increase was primarily driven by an increase in interest income of $147.1 million due to higher cash and investment balances, partially offset by a decrease in foreign exchange gains of $21.5 million.

The costs of our hedging activity that we recognize to interest income and other, net are primarily a function of the notional amount of the option and forward contracts and the movement and volatility of the foreign currency exchange rates.

As we expand our international business, we believe costs related to hedging activity under our foreign exchange risk management program may increase in dollar amount in 2009 and future periods.

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,			Three Months Ended	
	2006	2007	2008	September 30, 2008	December 31, 2008
				(unaudited)	
Provision for income taxes	$ 933.6	$ 1,470.3	$ 1,626.7	$ 378.8	$ 452.9
Effective tax rate	23.3%	25.9%	27.8%	22.7%	54.2%

Our effective tax rate increased from the three months ended September 30, 2008 to the three months ended December 31, 2008, primarily as a result of the recognition of a tax benefit of only $82.3 million related to the impairment charge of equity investments of $1.09 billion in the three months ended December 31, 2008. This is a result of the related capital loss on the impairment charge exceeding the currently expected offsetting capital gains. To a lesser extent, our effective tax rate increased as a result of proportionately higher earnings in countries where we have higher statutory tax rates, and due to greater net gains recognized on hedges of certain intercompany and other transactions under our foreign exchange risk management program in a legal entity where we have a higher statutory tax rate and greater net losses

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recognized on the related hedged transactions in legal entities where we have lower statutory tax rates. These increases were partially offset as a result of the federal research and development tax credit which was extended in October 2008 and for which we recognized the entire benefit for 2008 in the three months ended December 31, 2008.

Our effective tax rate increased from the year ended December 31, 2007 to the year ended December 31, 2008, primarily as a result of the amount of the impairment charge of equity investments compared to the related tax benefit, as well as the net gains and losses recognized by legal entities on certain hedges and hedged intercompany and other transactions, partially offset by proportionately higher earnings in countries where we have lower statutory tax rates.

Our provision for income taxes increased $536.7 million from the year ended December 31, 2006 to December 31, 2007. The increase in our provision for income taxes was primarily due to increases in federal and state income taxes, driven by higher taxable income period over period, partially offset by proportionately more earnings realized in countries where we have lower statutory tax rates in 2007 compared to 2006. Our effective tax rate increased from 2006 to 2007 primarily as a result of greater discrete income tax benefits realized in 2006 than in 2007, partially offset by proportionately more earnings realized in countries where we have lower statutory tax rates in 2007 compared to 2006.

Our effective tax rate could fluctuate significantly on a quarterly basis and could be adversely affected to the extent earnings are lower than anticipated in countries where we have lower statutory tax rates and higher than anticipated in countries where we have higher statutory tax rates. Our effective tax rate could also fluctuate due to 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, accounting principles, or interpretations thereof. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

See Critical Accounting Policies and Estimates included elsewhere in this Annual Report on Form 10-K for additional information about our provision for income taxes.

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 this Annual Report on Form 10-K.

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Quarterly Results of Operations

You should read the following tables presenting our quarterly results of operations in conjunction with the consolidated financial statements and related notes contained elsewhere in this Annual Report on Form 10-K. We have prepared the unaudited information on the same basis as our audited consolidated financial statements. You should also keep in mind, as you read the following tables, that our operating results for any quarter are not necessarily indicative of results for any future quarters or for a full year.

The following table presents our unaudited quarterly results of operations for the eight quarters ended December 31, 2008. This table includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary for fair presentation of our 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.

	Quarter Ended							
	Mar 31, 2007	Jun 30, 2007	Sep 30, 2007	Dec 31, 2007	Mar 31, 2008	Jun 30, 2008	Sep 30, 2008	Dec 31, 2008
	(in millions, except per share amounts) (unaudited)							
Consolidated Statements of Income Data:								
Revenues	$ 3,664.0	$ 3,872.0	$ 4,231.3	$ 4,826.7	$ 5,186.1	$ 5,367.2	$ 5,541.4	$ 5,700.9
Costs and expenses:								
Cost of revenues	1,470.4	1,560.3	1,662.6	1,955.8	2,110.5	2,147.6	2,173.4	2,190.0
Research and development	408.4	532.1	548.7	630.8	673.1	682.2	704.6	733.3
Sales and marketing	302.6	355.6	380.8	422.3	446.9	484.5	508.8	506.0
General and administrative	261.4	319.4	321.4	377.1	409.3	474.8	507.1	411.4
Total costs and expenses	2,442.8	2,767.4	2,913.5	3,386.0	3,639.8	3,789.1	3,893.9	3,840.7
Income from operations	1,221.2	1,104.6	1,317.8	1,440.7	1,546.3	1,578.1	1,647.5	1,860.2
Impairment of equity investments								(1,094,8)
Interest income and other, net	130.8	137.1	154.5	167.3	167.3	57.9	21.2	69.9
Income before income taxes	1,352.0	1,241.7	1,472.3	1,608.0	1,713.6	1,636.0	1,668.7	835.3
Provision for income taxes	349.8	316.6	402.3	401.6	406.5	388.5	378.8	452.9
Net income	$ 1,002.2	$ 925.1	$ 1,070.0	$ 1,206.4	$ 1,307.1	$ 1,247.5	$ 1,289.9	$ 382.4
Net income per share of Class A and Class B common stock:								
Basic	$ 3.24	$ 2.98	$ 3.44	$ 3.86	$ 4.17	$ 3.97	$ 4.10	$ 1.22
Diluted	$ 3.18	$ 2.93	$ 3.38	$ 3.79	$ 4.12	$ 3.92	$ 4.06	$ 1.21

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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, 2008.

	Quarter Ended							
	Mar 31, 2007	Jun 30, 2007	Sep 30, 2007	Dec 31, 2007	Mar 31, 2008	Jun 30, 2008	Sep 30, 2008	Dec 31, 2008
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Costs and expenses:								
Cost of revenues	40.1	40.3	39.3	40.5	40.7	40.0	39.2	38.4
Research and development	11.1	13.7	13.0	13.1	13.0	12.7	12.7	12.9
Sales and marketing	8.3	9.2	9.0	8.8	8.6	9.0	9.2	8.9
General and administrative	7.2	8.2	7.6	7.8	7.9	8.9	9.2	7.2
Total costs and expenses	66.7	71.4	68.9	70.2	70.2	70.6	70.3	67.4
Income from operations	33.3	28.6	31.1	29.8	29.8	29.4	29.7	32.6
Impairment of equity investments								(19.2)
Interest income and other, net	3.6	3.5	3.6	3.5	3.2	1.1	0.4	1.3
Income before income taxes	36.9	32.1	34.7	33.3	33.0	30.5	30.1	14.7
Provision for income taxes	9.5	8.2	9.5	8.3	7.8	7.3	6.8	8.0
Net income	27.4%	23.9%	25.2%	25.0%	25.2%	23.2%	23.3%	6.7%

Liquidity and Capital Resources

In summary, our cash flows were:

	Year Ended December 31,		
	2006	2007	2008
		(in millions)	
Net cash provided by operating activities	$ 3,580.5	$ 5,775.4	$ 7,852.9
Net cash used in investing activities	(6,899.2)	(3,681.6)	(5,319.4)
Net cash provided by financing activities	2,966.4	403.1	87.6

At December 31, 2008 we had $15.8 billion of cash, cash equivalents and marketable securities. Cash equivalents and marketable securities are comprised of highly liquid debt instruments of the U.S. government and its agencies, municipalities in the U.S., time deposits, money market mutual funds and U.S. corporate securities. Note 3 of Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K describes further the composition of our cash, cash equivalents and marketable securities.

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. At December 31, 2007 and 2008, we had unused letters of credit for approximately $20.4 million and $109.9 million. We believe that our existing cash, cash equivalents, marketable securities and cash generated from operations 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, including the impact of changes in customer buying or advertiser spending behavior that may result from the current general economic downturn. Also, if the banking system or the financial markets continue to deteriorate or remain volatile, our investment portfolio may be impacted and the values and liquidity of our investments could be adversely affected. In addition, we may make acquisitions 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 any such acquisitions and licensing activities. Additional financing may not be available at all or on terms favorable to us.

Cash provided by operating activities consisted of net income adjusted for certain non-cash items, including depreciation, amortization, stock-based compensation expense, excess tax benefits from stock-based award activity,

deferred income taxes and impairment charges of equity investments, if any, as well as the effect of changes in working capital and other activities. Cash provided by operating activities in 2008 was $7,852.9 million and consisted of net income of $4,226.9 million, adjustments for non-cash items of $3,298.8 million and cash provided by working capital and other activities of $327.2 million. Adjustments for non-cash items primarily consisted of $1,212.2 million of depreciation and amortization expense on property and equipment, $1,119.8 million of stock-based compensation and $1,094.8 million of impairment charges of equity investments, partially offset by $224.6 million of deferred income taxes on earnings and $159.1 million of excess tax benefits from stock-based award activity. In addition, changes in working capital activities primarily consisted of a net increase in income taxes payable and deferred income taxes of $626.0 million (which includes the same $159.1 million of excess tax benefits from stock-based awards included under adjustments for non-cash items) and an increase in accrued expenses and other liabilities of $338.9 million. The increases in accrued expenses are a direct result of the growth of our business and increases in headcount. These increases to working capital activities were partially offset by an increase of $334.5 million in accounts receivable due to the growth in fees billed to our advertisers, a decrease of $211.5 million in accounts payable due to the timing of invoice processing and payments and an increase of $147.1 million in prepaid revenue shares, expenses and other assets.

Cash provided by operating activities in 2007 was $5,775.4 million and consisted of net income of $4,203.7 million, adjustments for non-cash items of $1,253.1 million and cash provided by working capital and other activities of $318.6 million. Adjustments for non-cash items primarily consisted of $868.6 million of stock-based compensation and $807.7 million of depreciation and amortization expense on property and equipment, partially offset by $379.2 million of excess tax benefits from stock-based award activity. In addition, changes in working capital activities primarily consisted of a net increase in income taxes payable and deferred income taxes of $744.8 million (which includes the same $379.2 million of excess tax benefits from stock-based awards included under adjustments for non-cash items), an increase in accrued expenses and other liabilities of $418.9 million, an increase in accrued revenue share of $150.3 million, an increase in accounts payable of $70.1 million and an increase in deferred revenue of $70.3 million. The increases in accounts payable and accrued expenses are a direct result of the growth of our business and increases in headcount. These increases to working capital activities were partially offset by an increase of $837.2 million in accounts receivable due to the growth in fees billed to our advertisers and an increase of $298.7 million in prepaid revenue shares, expenses and other assets.

Cash provided by operating activities in 2006 was $3,580.5 million and consisted of net income of $3,077.4 million, adjustments for non-cash items of $362.3 million and cash provided by working capital and other activities of $140.8 million. Adjustments for non-cash items primarily consisted of $494.4 million of depreciation and amortization expense on property and equipment and $458.1 million of stock-based compensation, partially offset by $581.7 million of excess tax benefits from stock-based award activity. In addition, working capital activities primarily consisted of a net increase in income taxes payable and deferred income taxes of $496.9 million primarily comprised of the same $581.7 million of excess tax benefits from stock-based award activity included under adjustments for non-cash items, an increase of $386.9 million in accounts payable and accrued expenses due to the increase in purchases of property and equipment and other general expenditures, partially offset by an increase of $624.0 million in accounts receivable due to the growth in fees billed to our advertisers, as well as a net increase of $149.9 million in prepaid revenue share, expenses and other assets and accrued revenue share primarily resulted from prepayments associated with AdSense and distribution arrangements.

As we expand our business internationally, we have offered payment terms to certain advertisers that are standard in their locales, but longer than terms we would generally offer to our domestic advertisers. This may increase our working capital requirements and may have a negative effect on cash provided by our operating activities.

Cash used in investing activities in 2008 of $5,319.4 million was attributable to cash consideration used in acquisitions and other investments of $3,367.5 million primarily related to the acquisition of DoubleClick and capital expenditures of $2,358.5 million, partially offset by net maturities and sales of marketable securities of $406.5 million including our investment in Clearwire.

Cash used in investing activities in 2007 of $3,681.6 million was attributable to capital expenditures of $2,402.8 million, cash consideration used in acquisitions and other investments of $941.2 million, primarily related to the acquisition of Postini, and net purchases of marketable securities of $337.6 million.

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Cash used in investing activities in 2006 of $6,899.2 million was attributable to net purchases of marketable securities of $3,574.8 million primarily driven by the additional cash raised from our follow-on public stock offering in April 2006, cash consideration used in acquisitions and other investments of $1,421.6 million primarily related to our $1.0 billion investment in AOL, and to a lesser extent, the acquisition of dMarc Broadcasting, Inc. and capital expenditures of $1,902.8 million.

Capital expenditures are mainly for the purchase of information technology assets. In order to manage expected increases in internet traffic, advertising transactions and new products and services, and to support our overall global business expansion, we will make significant investments in data center operations, technology, corporate facilities and information technology infrastructure in 2009 and thereafter.

In addition, we expect to spend a significant amount of cash on acquisitions and other investments from time to time. These acquisitions generally enhance the breadth and depth of our expertise in engineering and other functional areas, our technologies and our product offerings. In connection with certain acquisitions, we are obligated to make additional cash payments if certain criteria are met. As of December 31, 2008, our remaining contingent obligations related to these acquisitions was approximately $37 million, which if the criteria are met, would be recorded as part of the purchase. Since these contingent payments are based on the achievement of performance targets, actual payments may be substantially lower. Also, in July 2008, we signed an agreement with Rambler Media to acquire ZAO Begun, a Russian context advertising service, for $140 million in cash, subject to customary adjustments. On October 22, 2008, the Federal Antimonopoly Service of the Russian Federation denied consent to the proposed acquisition of ZAO Begun and on January 7, 2009, the acquisition agreement was terminated.

As part of our philanthropic program, we expect to make donations as well as investments in for-profit enterprises that aim to alleviate poverty, improve the environment or achieve other socially or economically progressive objectives. We expect these payments to be made primarily in cash. We authorized up to $175 million of such payments over the three years ending December 31, 2008, with any unallocated amounts to be rolled over into the following year. The majority of this authorized amount has been spent or committed.

Cash provided by financing activities in 2008 of $87.6 million was due primarily to excess tax benefits of $159.1 million from stock-based award activity during the period which represents a portion of the $250.9 million reduction to income tax payable that we recorded in the year ended December 31, 2008 related to the total direct tax benefit realized from the exercise, sale or vesting of these awards, partially offset by net payments related to stock-based award activity of $71.5 million. Cash provided by financing activities in 2007 of $403.1 million was due primarily to excess tax benefits of $379.2 million from stock-based award activity during the period and net proceeds from the issuance of common stock pursuant to stock-based award activity of $23.9 million. Cash provided by financing activities in 2006 of $2,966.4 million was due primarily to net proceeds of $2,063.5 million raised from the follow-on stock offering, excess tax benefits of $581.7 million from stock-based award activity during the period and net proceeds from the issuance of common stock pursuant to stock-based award activity of $321.1 million.

Contractual Obligations as of December 31, 2008

		Payments due by period			
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(unaudited, in millions)				
Guaranteed minimum revenue share payments	$ 1,030.3	$ 618.0	$ 401.8	$ 10.5	$
Operating lease obligations	2,858.0	275.4	529.9	448.0	1,604.7
Purchase obligations	141.0	98.1	42.9		
Other long-term liabilities reflected on our balance sheet under GAAP	178.1	16.3	138.3	7.8	15.7
Total contractual obligations	$ 4,207.4	$ 1,007.8	$ 1,112.9	$ 466.3	$ 1,620.4

The above table does not include contingent consideration that may be paid pursuant to asset purchases or business combinations. It also does not include payments related to toolbar and other product distribution arrangements as those arrangements do not include guaranteed obligations.

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Guaranteed Minimum Revenue Share Payments

In connection with our AdSense revenue share agreements, we are periodically required to make non-cancelable guaranteed minimum payments to a small number of our Google Network members over the term of the respective contracts. Under our contracts, these guaranteed payments are prorated down based on our Google Network members not achieving defined performance targets, such as number of advertisements displayed or search queries. The amounts included in the table above assume that our Google Network members will meet or exceed their performance targets. We believe these amounts best represent a reasonable and conservative estimate of the future minimum guaranteed payments. Actual guaranteed payments may differ from the estimates presented above. To date, the aggregate advertiser fees generated under these AdSense agreements have exceeded the aggregate guaranteed minimum revenue share payments.

At December 31, 2008, our aggregate outstanding non-cancelable guaranteed minimum revenue share commitments totaled $1,030.3 million through 2012 compared to $1,746.4 million at December 31, 2007.

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 between 2009 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 table above. 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.

Purchase Obligations

Purchase obligations represent non-cancelable contractual obligations at December 31, 2008. In addition, we had $1.3 billion of open purchase orders for which we have not received the related services or goods at December 31, 2008. This amount is not included in the above table since we have the right to cancel the purchase orders prior to the date of delivery. The majority of our non-cancelable contractual obligations are related to data center operations and facility build-outs.

Other Long-Term Liabilities

Other long-term liabilities consist of cash obligations, primarily the legal settlement with the Authors Guild and the AAP, milestone and royalty payments owed in connection with certain acquisitions and licensing agreements.

In addition, as a result of having adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) in January 2007, we increased long-term taxes payable by $400.4 million in the year ended December 31, 2007 as FIN 48 specifies that tax positions for which the timing of the ultimate resolution is uncertain should be recognized as long-term liabilities. We also recognized additional long-term taxes payable of $362.8 million in the year ended December 31, 2008. At this time, we are unable to make a reasonably reliable estimate of the timing of payments in individual years beyond 12 months due to uncertainties in the timing of tax audit outcomes. As a result, this amount is not included in the table above.

Off-Balance Sheet Entities

At December 31, 2007 and 2008, we did not have interests in any variable interest entities, as defined by the Financial Accounting Standards Board Interpretation No. 46 (Revised 2003), *Consolidation of Variable Interest Entities An Interpretation of ARB No. 51,* having a significant effect on the financial statements.

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Critical Accounting Policies and Estimates

We prepare our Consolidated Financial Statements in accordance with accounting principles generally accepted in the U.S. In doing so, we have to make estimates and assumptions that affect our reported amounts of assets, liabilities, revenues and expenses, as well as related disclosure of contingent assets and liabilities. In some cases, we could reasonably have used different accounting policies and estimates. In some cases, changes in the accounting estimates are reasonably likely to occur from period to period. Accordingly, actual results could differ materially from our estimates. To the extent that there are material differences between these estimates and actual results, our financial condition or results of operations will be affected. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. We refer to accounting estimates of this type as critical accounting policies and estimates, which we discuss further below. We have reviewed our critical accounting policies and estimates with the audit committee of our board of directors.

Income Taxes

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes* (SFAS 109). The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement.

Although we believe we have adequately reserved for our uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit, the refinement of an estimate or changes in tax laws. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate, as well as the related net interest.

Our effective tax rates have differed from the statutory tax rate primarily due to the tax impact of foreign operations, certain impairment charges, research and experimentation tax credits, state taxes, and certain benefits realized related to stock option activity. The effective tax rates were 23.3%, 25.9% and 27.8% for 2006, 2007 and 2008. Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory tax rates and higher than anticipated in countries where we have higher statutory tax rates. Our effective tax rate could also fluctuate due to 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, accounting principles, or interpretations thereof. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service (IRS) and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

Stock-Based Compensation

We account for stock-based compensation in accordance with SFAS No. 123R, *Share-Based Payment* (SFAS 123R). Under the provisions of SFAS 123R, stock-based compensation cost is estimated at the grant date based on the award s fair value as calculated by the Black-Scholes-Merton (BSM) option-pricing model and is recognized as expense over the requisite service period. The BSM model requires various highly judgmental assumptions including volatility and expected option life. If any of the assumptions used in the BSM model change significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. We estimate the forfeiture rate based on historical experience. Further, to the extent our actual forfeiture rate is different from our estimate, stock-based compensation expense is adjusted accordingly.

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Impairment of Marketable and Non-Marketable Securities

We periodically review our marketable securities, as well as our non-marketable equity securities for impairment. If we conclude that any of these investments are impaired, we determine whether such impairment is other-than-temporary as defined under FSP 115-1. Factors we consider to make such a determination include the duration and severity of the impairment, the reason for the decline in value and the potential recovery period, and our intent and ability to hold an investment. If any impairment is considered other-than-temporary, we will write down the asset to its fair value and take a corresponding charge to our Consolidated Statement of Income.

Effect of Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS 141R). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. This statement is effective for us beginning January 1, 2009. The impact of the adoption of SFAS 141R on our consolidated financial position, results of operations will largely be dependent on the size and nature of the business combinations completed after the adoption of this statement.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51* (SFAS 160). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent s ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. This statement is effective for us beginning January 1, 2009. We do not expect the impact of the adoption of SFAS 160 to be material.

In February 2008, the FASB issued Financial Staff Position (FSP) SFAS 157-2, *Effective Date of FASB Statement No. 157 (FSP 157-2), which delays the effective date of SFAS No. 157, Fair Value Measurement* (SFAS 157), for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements. FSP 157-2 partially defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. The adoption of SFAS 157 for all nonfinancial assets and nonfinancial liabilities is effective for us beginning January 1, 2009. We do not expect the impact of this adoption to be material.

In April 2008, the FASB issued FSP SFAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3). This guidance is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R when the underlying arrangement includes renewal or extension of terms that would require substantial costs or result in a material modification to the asset upon renewal or extension. Companies estimating the useful life of a recognized intangible asset must now consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, must consider assumptions that market participants would use about renewal or extension as adjusted for SFAS 142 s entity-specific factors. FSP 142-3 is effective for us beginning January 1, 2009. We do not expect the impact of the adoption of FSP 142-3 to be material.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to financial market risks, including changes in currency exchange rates and interest rates.

Foreign Exchange Risk

Economic Exposure

We transact business in various foreign currencies and have significant international revenues as well as costs denominated in foreign currencies. This exposes us to foreign currency risk. We purchase foreign exchange option contracts to reduce the volatility of cash flows primarily related to forecasted revenue denominated in certain foreign currencies. The objective of the foreign exchange contracts is to better ensure that the U.S. dollar-equivalent cash flows are not adversely affected by changes in the U.S. dollar/foreign currency exchange rate. In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedge Activities* (SFAS 133), these contracts are designated as cash flow hedges. The gain on the effective portion of a cash flow hedge is initially reported as a component of accumulated other comprehensive income and subsequently reclassified into revenues when the hedged exposure affects revenues or as interest income and other, net, if the hedged transaction becomes probable of not occurring. Any gain after a hedge is de-designated because the hedged transaction is no longer probable of occurring or related to an ineffective portion of a hedge is recognized as interest income and other, net, immediately. At December 31, 2008, the notional principal and fair value of foreign exchange contracts to purchase U.S. dollars with Euros were 1.9 billion (or approximately $2.6 billion) and $152.0 million; the notional principal and fair value of foreign exchange contracts to purchase U.S. dollars with British pounds were £1.1 billion (or approximately $1.8 billion) and $277.9 million; and the notional principal and fair value of foreign exchange contracts to purchase U.S. dollars with Canadian dollars were C$229.7 million (or approximately $202.2 million) and $21.9 million. These foreign exchange options have maturities of 18 months or less. There are no other foreign exchange contracts designated as cash flow hedges. However, we may enter into similar contracts in other foreign currencies in the future.

We considered the historical trends in currency exchange rates and determined that it was reasonably possible that changes in exchange rates of 20% for our foreign currencies instruments could be experienced in the near term.

If the U.S. dollar weakened by 20%, the amount recorded in accumulated other comprehensive income before tax effect would have been approximately $325 million lower at December 31, 2008, and the total amount recorded as interest income and other, net, would have been approximately $15 million lower in the year ended December 31, 2008. If the U.S. dollar strengthened by 20%, the amount recorded in accumulated other comprehensive income before tax effect would have been approximately $750 million higher at December 31, 2008, and the total amount recorded as interest income and other, net, would have been approximately $85 million lower in the year ended December 31,2008.

Transaction Exposure

Our exposure to foreign currency transaction gains and losses is the result of certain net receivables due from our foreign subsidiaries and customers being denominated in currencies other than the functional currency of the subsidiary, primarily the Euro, the British pound and the Japanese yen. Our foreign subsidiaries conduct their businesses in local currency. We have entered into foreign exchange contracts to offset the foreign exchange risk on certain monetary assets and liabilities denominated in currencies other than the local currency of the subsidiary. The notional principal of foreign exchange contracts to purchase U.S. dollars with foreign currencies was $1.5 billion and $2.6 billion at December 31, 2007 and December 31, 2008. The notional principal of foreign exchange contracts to sell U.S. dollars with foreign currencies was $54.2 million at December 31, 2008. The notional principal of foreign exchange contracts to purchase Euros with other currencies was 296.5 million (or approximately $433.4 million) and 630.5 million (or approximately $897.6 million) at December 31, 2007 and December 31, 2008.

We considered the historical trends in currency exchange rates and determined that it was reasonably possible that adverse changes in exchange rates of 20% for all currencies could be experienced in the near term. These changes would have resulted in an adverse impact on income before income taxes of approximately $80 million and $16 million at December 31, 2007 and December 31, 2008. The adverse impact at December 31, 2007 and December 31, 2008 is after

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consideration of the offsetting effect of approximately $328 million and $555 million from forward exchange contracts in place for the months of December 2007 and December 2008. These reasonably possible adverse changes in exchange rates of 20% were applied to total monetary assets denominated in currencies other than the local currencies at the balance sheet dates to compute the adverse impact these changes would have had on our income before taxes in the near term.

Interest Rate Risk

We invest our excess cash primarily in highly liquid debt instruments of U.S. government and its agencies, municipalities in the U.S., time deposits, money market mutual funds and corporate securities. By policy, we limit the amount of credit exposure to any one issuer.

Investments in both fixed rate and floating rate interest earning securities carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than predicted if interest rates fall. Due in part to these factors, our income from investments may decrease in the future.

We considered the historical volatility of short term interest rates and determined that it was reasonably possible that an adverse change of 100 basis points could be experienced in the near term. A hypothetical 1.00% (100 basis-point) increase in interest rates would have resulted in a decrease in the fair values of our marketable securities of approximately $87 million and $83 million at December 31, 2007 and December 31, 2008.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Google Inc.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Contents

The supplementary financial information required by this Item 8 is included in Item 7 under the caption Quarterly Results of Operations.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Google Inc.

We have audited the accompanying consolidated balance sheets of Google Inc. as of December 31, 2007 and 2008, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedule listed in the Index at Item 15(a)2. These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Google Inc. at December 31, 2007 and 2008, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 14 to the consolidated financial statements, in 2007, Google Inc. adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109.*

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Google Inc. s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 12, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, California
February 12, 2009

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Google Inc.

We have audited Google Inc. s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Google Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Google Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Google Inc. as of December 31, 2007 and 2008, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2008 of Google Inc. and our report dated February 12, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, California
February 12, 2009

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Google Inc.

CONSOLIDATED BALANCE SHEETS

(In thousands, except par value per share)

	As of December 31,	
	2007	**2008**
Assets		
Current assets:		
Cash and cash equivalents	$ 6,081,593	$ 8,656,672
Marketable securities	8,137,020	7,189,099
Accounts receivable, net of allowance of $32,887 and $80,086	2,162,521	2,642,192
Deferred income taxes, net	68,538	286,105
Income taxes receivable, net	145,253	
Prepaid revenue share, expenses and other assets	694,213	1,404,114
Total current assets	17,289,138	20,178,182
Prepaid revenue share, expenses and other assets, non-current	168,530	433,846
Deferred income taxes, net, non-current	33,219	
Non-marketable equity securities	1,059,694	85,160
Property and equipment, net	4,039,261	5,233,843
Intangible assets, net	446,596	996,690
Goodwill	2,299,368	4,839,854
Total assets	$ 25,335,806	$ 31,767,575
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 282,106	$ 178,004
Accrued compensation and benefits	588,390	811,643
Accrued expenses and other current liabilities	465,032	480,263
Accrued revenue share	522,001	532,547
Deferred revenue	178,073	218,084
Incomes taxes payable, net		81,549
Total current liabilities	2,035,602	2,302,090
Deferred revenue, non-current	30,249	29,818
Income taxes payable, net, non-current	478,372	890,115
Deferred income taxes, net, non-current		12,515
Other long-term liabilities	101,904	294,175
Commitments and contingencies		
Stockholders equity:		
Convertible preferred stock, $0.001 par value, 100,000 shares authorized; no shares issued and outstanding		
Class A and Class B common stock, $0.001 par value per share: 9,000,000 shares authorized; 312,917 (Class A 236,097, Class B 76,820) and par value of $313 (Class A $236, Class B $77) and 315,114 (Class A 240,073, Class B 75,041) and par value of $315 (Class A $240, Class B $75) shares issued and outstanding, excluding 361 (Class A 336, Class B 25) and 26 (Class A 26) shares subject to repurchase (see Note 12) at December 31, 2007 and 2008	313	315
Additional paid-in capital	13,241,221	14,450,338
Accumulated other comprehensive income	113,373	226,579
Retained earnings	9,334,772	13,561,630
Total stockholders equity	22,689,679	28,238,862

Total liabilities and stockholders equity	$ 25,335,806	$ 31,767,575

See accompanying notes.

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Google Inc.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

	Year Ended December 31, 2006	2007	2008
Revenues	$ 10,604,917	$ 16,593,986	$ 21,795,550
Costs and expenses:			
Cost of revenues (including stock-based compensation expense of $17,629, $22,335, $41,340)	4,225,027	6,649,085	8,621,506
Research and development (including stock-based compensation expense of $287,485, $569,797, $732,418)	1,228,589	2,119,985	2,793,192
Sales and marketing (including stock-based compensation expense of $59,389, $131,638, $206,020)	849,518	1,461,266	1,946,244
General and administrative (including stock-based compensation expense of $93,597, $144,876, $139,988)	751,787	1,279,250	1,802,639
Total costs and expenses	7,054,921	11,509,586	15,163,581
Income from operations	3,549,996	5,084,400	6,631,969
Impairment of equity investments			(1,094,757)
Interest income and other, net	461,044	589,580	316,384
Income before income taxes	4,011,040	5,673,980	5,853,596
Provision for income taxes	933,594	1,470,260	1,626,738
Net income	$ 3,077,446	$ 4,203,720	$ 4,226,858
Net income per share of Class A and Class B common stock:			
Basic	$ 10.21	$ 13.53	$ 13.46
Diluted	$ 9.94	$ 13.29	$ 13.31

See accompanying notes.

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Google Inc.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In thousands)

	Class A and Class B Common Stock Shares	Class A and Class B Common Stock Amount	Additional Paid-In Capital	Deferred Stock-Based Compensation	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders Equity
Balance at January 1, 2006	293,027	$ 293	$ 7,477,792	$ (119,015)	$ 4,019	$ 2,055,868	$ 9,418,957
Issuance of common stock in connection with follow-on public offering and acquisitions, net	7,689	8	3,236,778				3,236,786
Stock-based award activity	8,281	8	1,168,336	119,015			1,287,359
Comprehensive income:							
Net income						3,077,446	3,077,446
Change in unrealized loss on available-for-sale investments, net of tax effect of $13,280					(19,309)		(19,309)
Foreign currency translation adjustment					38,601		38,601
Total comprehensive income							3,096,738
Balance at December 31, 2006	308,997	309	11,882,906		23,311	5,133,314	17,039,840
Stock-based award activity	3,920	4	1,358,315				1,358,319
Comprehensive income:							
Net income						4,203,720	4,203,720
Change in unrealized gain on available-for-sale investments, net of tax effect of $19,963					29,029		29,029
Foreign currency translation adjustment					61,033		61,033
Total comprehensive income							4,293,782
Adjustment to retained earnings upon adoption of FIN 48						(2,262)	(2,262)
Balance at December 31, 2007	312,917	313	13,241,221		113,373	9,334,772	22,689,679
Stock-based award activity	2,197	2	1,209,117				1,209,119
Comprehensive income:							
Net income						4,226,858	4,226,858
Change in unrealized loss on available-for-sale investments, net of tax effect of $8,871					(12,506)		(12,506)
Foreign currency translation adjustment					(84,195)		(84,195)
Change in unrealized gain on cash flow hedges, net of tax effect of $144,371					209,907		209,907
Total comprehensive income							4,340,064
Balance at December 31, 2008	315,114	$ 315	$ 14,450,338	$	$ 226,579	$ 13,561,630	$ 28,238,862

See accompanying notes.

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Google Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,		
	2006	**2007**	**2008**
Operating activities			
Net income	$ 3,077,446	$ 4,203,720	$ 4,226,858
Adjustments:			
Depreciation and amortization of property and equipment	494,430	807,743	1,212,237
Amortization of intangibles and other	77,509	159,915	287,650
Stock-based compensation	458,100	868,646	1,119,766
Excess tax benefits from stock-based award activity	(581,732)	(379,206)	(159,088)
Deferred income taxes	(98,468)	(164,212)	(224,645)
Impairment of equity investments			1,094,757
Other, net	12,474	(39,741)	(31,910)
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(624,012)	(837,247)	(334,464)
Income taxes, net	496,882	744,802	626,027
Prepaid revenue share, expenses and other assets	(289,157)	(298,689)	(147,132)
Accounts payable	95,402	70,135	(211,539)
Accrued expenses and other liabilities	291,533	418,905	338,907
Accrued revenue share	139,300	150,310	14,000
Deferred revenue	30,801	70,329	41,433
Net cash provided by operating activities	3,580,508	5,775,410	7,852,857
Investing activities			
Purchases of property and equipment	(1,902,798)	(2,402,840)	(2,358,461)
Purchases of marketable securities	(26,681,891)	(15,997,060)	(15,356,304)
Maturities and sales of marketable securities	23,107,132	15,659,473	15,762,796
Investments in non-marketable equity securities	(1,019,147)	(34,511)	(47,154)
Acquisitions, net of cash acquired and proceeds received from divestiture, and purchases of intangible and other assets	(402,446)	(906,651)	(3,320,299)
Net cash used in investing activities	(6,899,150)	(3,681,589)	(5,319,422)
Financing activities			
Net proceeds (payments) from stock-based award activity	321,117	23,861	(71,521)
Excess tax benefits from stock-based award activity	581,732	379,206	159,088
Net proceeds from a public offering	2,063,549		
Net cash provided by financing activities	2,966,398	403,067	87,567
Effect of exchange rate changes on cash and cash equivalents	19,741	40,034	(45,923)
Net increase (decrease) in cash and cash equivalents	(332,503)	2,536,922	2,575,079
Cash and cash equivalents at beginning of year	3,877,174	3,544,671	6,081,593
Cash and cash equivalents at end of year	$ 3,544,671	$ 6,081,593	$ 8,656,672

Supplemental disclosures of cash flow information						
Cash paid for interest	$	257	$	1,336	$	1,564
Cash paid for taxes	$	537,702	$	882,688	$	1,223,985
Acquisition related activities:						
Issuance of equity in connection with acquisitions, net	$	1,173,234	$		$	

See accompanying notes.

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Google Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 provide highly targeted advertising and global internet search solutions as well as intranet solutions via an enterprise search appliance.

Basis of Consolidation

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

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States 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 marketable and non-marketable securities, fair values of prepaid revenue share, intangible assets and goodwill, property and equipment, fair values of options to purchase our common stock, and income taxes, 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.

Revenue Recognition

The following table presents our revenues (in thousands):

	Year Ended December 31,		
	2006	**2007**	**2008**
Advertising revenues:			
Google web sites	$ 6,332,797	$ 10,624,705	$ 14,413,826
Google Network web sites	4,159,831	5,787,938	6,714,688
Total advertising revenues	10,492,628	16,412,643	21,128,514
Licensing and other revenues	112,289	181,343	667,036
Revenues	$ 10,604,917	$ 16,593,986	$ 21,795,550

Google AdWords is our automated online program that enables advertisers to place targeted text-based and display ads on our web sites and our Google Network members web sites. 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 web sites and our Google Network members web sites as specified by the advertiser.

Google AdSense refers to the online programs through which we distribute our advertisers AdWords ads for display on the web sites of our Google Network members as well as programs to deliver ads on television broadcasts and audio ads on radio broadcasts.

We recognize as revenues the fees charged advertisers each time a user clicks on one of the text-based ads that are displayed next to the search results pages on our site or on the search results pages or content pages of our Google

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Google Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Network members web sites and, for those advertisers who use our cost-per impression pricing, the fees charged advertisers each time an ad is displayed on our members sites. In accordance with Emerging Issues Task Force (EITF) Issue No. 99-19, *Reporting Revenue Gross as a Principal Versus Net as an Agent*, we report our Google AdSense revenues on a gross basis principally because we are the primary obligor to our advertisers.

Google TV Ads enables advertisers, operators and programmers to buy, schedule, deliver and measure ads on television. We recognize as revenue the fees charged advertisers each time an ad is displayed on television in accordance with the terms of the related agreements. Google Audio Ads enables the distribution of our advertisers ads for broadcast on radio programs. We recognize as revenue the fees charged advertisers each time an ad is broadcasted or a listener responds to that ad. We consider the television providers and radio stations that participate in these programs to be members of our Google Network.

In 2008 we acquired DoubleClick, a company that offers online ad serving and management services to advertisers, ad agencies and web site publishers. Fees derived from hosted, or web-based applications are recognized as licensing and other revenues in the period the advertising impressions are delivered.

Google Checkout is our online shopping payment processing system for both consumers and merchants. We recognize as revenues any fees charged to merchants on transactions processed through Google Checkout. Further, cash ultimately paid to merchants under Google Checkout promotions, including cash paid to merchants as a result of discounts provided to consumers on certain transactions processed through Google Checkout, are accounted for as an offset to revenues in accordance with EITF Issue No. 01-9, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor s Products).*

We generate fees from search services on a per-query basis. Our policy is to recognize revenues from per-query search fees in the period we provide the search results.

We also generate fees from the sale and license of our Search Appliance, which includes hardware, software and 12 to 24 months of post-contract support. We recognize revenue in accordance with Statement of Position 97-2, *Software Revenue Recognition*, as amended. As the elements are not sold separately, sufficient vendor-specific objective evidence does not exist for the allocation of revenue. As a result, the entire fee is recognized ratably over the term of the post-contract support arrangement. We also generate fees through the license of our Google Apps product. We recognize as revenue the fees we charge customers for hosting the related enterprise applications and services ratably over the term of the service arrangement.

Revenues realized through Google TV Ads, Google Audio Ads, DoubleClick, Google Checkout, search services, Search Appliance and Google Apps were not material in any of the years presented.

We recognize revenues as described above because the services have been provided, and the other criteria set forth under Staff Accounting Bulletin Topic 13: *Revenue Recognition* have been met, namely, 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.

Deferred revenue is recorded when payments are received in advance of our performance in the underlying agreement on the accompanying Consolidated Balance Sheets.

Google Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Cost of Revenues

Cost of revenues consists primarily of traffic acquisition costs. Traffic acquisition costs consist of amounts ultimately paid to our Google Network members under AdSense arrangements and to certain other partners (our distribution partners) who distribute our toolbar and other products (collectively referred to as access points) or otherwise direct search queries to our web site (collectively referred to as distribution arrangements). These amounts are primarily based on the revenue share arrangements with our Google Network members and distribution partners.

Certain AdSense agreements obligate us to make guaranteed minimum revenue share payments to Google Network members based on their achieving defined performance terms, such as number of search queries or advertisements displayed. These fees may be paid in advance or in arrears and are non-refundable but are subject to adjustment based on the achievement of the defined performance terms. In addition, the arrangements are terminable at will, although under the terms of certain contracts we or our Google Network members may be subject to penalties in the event of early termination. To the extent we expect revenues generated under an arrangement to exceed the guaranteed minimum revenue share payments, we recognize traffic acquisition costs on a contractual revenue share basis or on a basis proportionate to forecasted revenues, whichever is greater. Otherwise, we recognize the guaranteed revenue share payments as traffic acquisition costs on a straight-line basis over the term of the related agreements. For other AdSense agreements under which we only pay on a contractual revenue share basis, we recognize the revenue share obligations as traffic acquisition costs at the same time the related revenue is recognized. Also, concurrent with the commencement of a small number of AdSense and other agreements, we have purchased certain items from, or provided other consideration to, our Google Network members and partners. We have determined that certain of these amounts are prepaid traffic acquisition costs and are amortized on a straight-line basis over the terms of the related agreements.

In addition, certain distribution arrangements require us to pay our partners based on a fee per access point delivered and not exclusively or at all based on revenue share. The fees are non-refundable. Further, the arrangements are terminable at will, although under the terms of certain contracts we or our distribution partners may be subject to penalties in the event of early termination. We recognize fees under these arrangements over the estimated useful lives of the access points (two years) to the extent we can reasonably estimate those lives and they are longer than one year, or based on any contractual revenue share, if greater. Otherwise, the fees are charged to expense as incurred. The estimated useful life of the access points is based on the historical average period of time they generate traffic and revenue. Further, we review the access points for impairment at the distribution partner level, and there have been no impairments to date.

Prepaid revenue share and distribution fees are included in prepaid revenue share, expenses and other assets on the accompanying Consolidated Balance Sheets.

Cost of revenues also includes the expenses associated with the operation of our data centers, including depreciation, labor, energy and bandwidth costs, as well as credit card and other transaction fees related to processing customer transactions including Google Checkout transactions, as well as content acquisition costs. We have entered into arrangements with certain content providers under which we distribute or license their video and other content. In a number of these arrangements we display ads on the pages of our web sites and our Google Network members web sites from which the content is viewed and share most of the fees these ads generate with the content providers and the Google Network members. To the extent we are obligated to make guaranteed minimum revenue share or other payments to our content providers, we recognize content acquisition costs equal to the greater of the following three amounts: the contractual revenue share amount, if any, an amount that is based on the number of times the content is displayed, or an amount calculated on a straight-line basis over the terms of the agreements.

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Google Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock-based Compensation

We account for stock-based compensation in accordance with SFAS 123R.

We have elected to use the Black-Scholes-Merton (BSM) pricing model to determine the fair value of stock options on the dates of grant, consistent with that used for pro forma disclosures under SFAS No. 123, *Accounting for Stock-Based Compensation.* Restricted Stock Units (RSUs) are measured based on the fair market values of the underlying stock on the dates of grant. Shares are issued on the dates of vest net of the statutory withholding requirements to be paid by us on behalf of our employees. As a result, the actual number of shares issued will be less than the actual number of RSUs outstanding. Furthermore, in accordance with SFAS 123R, the liability for withholding amounts to be paid by us will be recorded as a reduction to additional paid-in capital when paid.

We recognize stock-based compensation using the straight-line method for all stock awards issued after January 1, 2006. For stock awards issued prior to January 1, 2006, we continue to recognize stock-based compensation using the accelerated method, other than RSUs issued to new employees that vest based on the employee s performance for which we use the straight-line method in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*.

In compliance with SFAS 123R, we included as part of cash flows from financing activities the benefits of tax deductions in excess of the tax-effected compensation of the related stock-based awards for the options exercised and RSUs vested. During the year ended December 31, 2008, the amount of cash received from exercise of stock options was $72.5 million and the total direct tax benefit realized, including the excess tax benefit, from stock-based award activity was $250.9 million. We have elected to account for the indirect effects of stock-based awards primarily the research and development tax credit through the income statement.

We account for stock awards issued to non-employees other than members of our board of directors in accordance with the provisions of SFAS 123R and EITF Issue No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services* (EITF 96-18). Under SFAS 123R and EITF 96-18, we use the BSM method to measure the value of options granted to non-employees at each vesting date to determine the appropriate charge to stock-based compensation.

In the years ended December 31, 2006, 2007 and 2008, we recognized stock-based compensation and related tax benefits of $458.1 million and $108.9 million, $868.6 million and $143.0 million, and $1,119.8 million and $231.7 million, respectively.

Certain Risks and Concentrations

Our revenues are principally derived from online advertising, the market for which is highly competitive and rapidly changing. In addition, our revenues are generated from a multitude of vertical market segments in countries around the globe. Significant changes in this industry or changes in customer buying or advertiser spending behavior, including those changes that may result from the current general economic downturn, could adversely affect our operating results.

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash equivalents, marketable securities, foreign exchange contracts and accounts receivable. Cash equivalents and marketable securities consist primarily of highly liquid debt instruments of U.S. government and its agencies, municipalities in the U.S., time deposits, money market funds and corporate securities. Foreign exchange contracts are transacted with various major corporations and financial institutions with high credit standing. Accounts receivable are typically unsecured and are derived from revenues earned from customers located around the globe. In 2006, 2007 and 2008, we generated approximately 57%, 52% and 49% of our revenues from customers based in the U.S., with the majority of customers

Google Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

outside of the U.S. located in Europe and Japan. Many of our Google Network members are in the internet industry. We perform ongoing evaluations to determine customer credit and limit the amount of credit extended, but generally no collateral is required. We maintain reserves for estimated credit losses and these losses have generally been within our expectations.

No advertiser or Google Network member generated greater than 10% of revenues in 2006, 2007 and 2008.

Fair Value of Financial Instruments

The carrying amounts of our financial instruments, including cash and cash equivalents, marketable securities, accounts receivable, accounts payable and accrued liabilities, approximate fair value because of their generally short maturities.

Cash and Cash Equivalents and Marketable Securities

We invest our excess cash primarily in highly liquid debt instruments of U.S. government and its agencies, municipalities in the U.S., time deposits, money market mutual funds and corporate securities. All highly liquid investments with stated maturities of three months or less from date of purchase are classified as cash equivalents; all highly liquid investments with stated maturities of greater than three months are classified as marketable securities.

We determine the appropriate classification of our investments in marketable securities at the time of purchase and reevaluate such designation at each balance sheet date. Our marketable securities have been classified and accounted for as available-for-sale. We may or may not hold securities with stated maturities greater than 12 months until maturity. After consideration of our risk versus reward objectives, as well as our liquidity requirements, we may sell these securities prior to their stated maturities. As these securities are viewed by us as available to support current operations, based on the provisions of Accounting Research Bulletin No. 43, Chapter 3A, *Working Capital-Current Assets and Liabilities*, securities with maturities beyond 12 months are classified as current assets under the caption marketable securities in the accompanying Consolidated Balance Sheets. These securities are carried at fair value, with the unrealized gains and losses, net of taxes, reported as a component of stockholders equity, except for unrealized losses determined to be other than temporary which are recorded as interest income and other, net, in accordance with our policy and FASB Staff Position (FSP) Nos. SFAS 115-1 (FSP 115-1) and SFAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. Any realized gains or losses on the sale of marketable securities are determined on a specific identification method, and such gains and losses are reflected as a component of interest income and other, net.

Non-Marketable Equity Securities

We have accounted for non-marketable equity security investments at historical cost because we do not have significant influence over the underlying investees. These investments are subject to a periodic impairment review. To the extent any impairment is considered other-than-temporary, the investment is written down to its fair value and the loss is recorded as a component of interest income and other, net.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and are non-interest bearing. We maintain an allowance for doubtful accounts to reserve for potentially uncollectible receivables. We review the accounts receivable by amounts due by customers which are past due to identify specific customers with known disputes or collectability issues. In determining the amount of the reserve, we make judgments about the creditworthiness of significant customers based on ongoing credit evaluations. We also maintain a sales allowance to reserve for potential credits issued to customers. The amount of the reserve is determined based on historical credits issued.

Google Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally two to five years. Buildings are depreciated over periods up to 25 years. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the assets. Construction in progress is related to the construction or development of property (including land) and equipment that have not yet been placed in service for their intended use. Depreciation for equipment commences once it is placed in service and depreciation for buildings and leasehold improvements commences once they are ready for their intended use.

Software Development Costs

We account for software development costs, including costs to develop software products or the software component of products to be marketed to external users, as well as software programs to be used solely to meet our internal needs in accordance with SFAS No. 86, *Accounting for Costs of Computer Software to be Sold, Leased, or Otherwise Marketed* and Statement of Position No. 98-1, *Accounting for Costs of Computer Software Developed or Obtained for Internal Use*. We have determined that technological feasibility for our products to be marketed to external users was reached shortly before the release of those products. As a result, the development costs incurred after the establishment of technological feasibility and before the release of those products were not material, and accordingly, were expensed as incurred. In addition, costs incurred during the application development stage for software programs to be used solely to meet our internal needs were not material.

Long-Lived Assets Including Goodwill and Other Acquired Intangible Assets

We review property and equipment and intangible assets, excluding goodwill, for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of these assets is measured by comparison of carrying amounts to the future undiscounted cash flows the assets are expected to generate. If property and equipment and intangible assets are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds its fair market value. We have made no material adjustments to our long-lived assets in any of the years presented. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), we test our goodwill for impairment at least annually or more frequently if events or changes in circumstances indicate that this asset may be impaired. Our tests are based on our single operating segment and reporting unit structure. We found no material impairment in any of the years presented.

SFAS 142 also requires that intangible assets with definite lives be amortized over their estimated useful lives and reviewed for impairment whenever events or changes in circumstances indicate an asset s carrying value may not be recoverable in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. We amortized our acquired intangible assets on a straight-line basis with definite lives over periods ranging primarily from one to twelve years.

Income Taxes

We recognize income taxes under the liability method. Deferred income taxes are recognized for differences between the financial reporting and tax bases of assets and liabilities at enacted statutory tax rates in effect for the years in which differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Foreign Currency

Generally, the functional currency of our international subsidiaries is the local currency. The financial statements of these subsidiaries are translated to U.S. dollars using month-end rates of exchange for assets and liabilities, and average rates of exchange for revenues, costs and expenses. Translation gains and losses are recorded in accumulated other comprehensive income as a component of stockholders equity. We recorded \$38.6 million and \$61.0 million of net translation gains in 2006 and 2007, and \$84.2 million of net translation losses in 2008. Net gains and losses resulting from foreign exchange transactions are recorded as a component of interest income and other, net. These gains and losses are net of those realized on forward foreign exchange contracts. We recorded \$5.3 million of net gains, \$16.2 million and \$35.6 million of net losses in 2006, 2007 and 2008 from assets and liabilities denominated in a currency other than the local currency.

Legal Costs

Legal costs are expensed as incurred.

Advertising and Promotional Expenses

We expense advertising and promotional costs in the period in which they are incurred. For the years ended December 31, 2006, 2007 and 2008, promotional and advertising expenses totaled approximately \$188.4 million, \$236.7 million and \$266.4 million.

Effect of Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS 141R. SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. This statement is effective for us beginning January 1, 2009. The impact of the adoption of SFAS 141R on our consolidated financial position, results of operations will largely be dependent on the size and nature of the business combinations completed after the adoption of this statement.

In December 2007, the FASB issued SFAS 160. SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent s ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. This statement is effective for us beginning January 1, 2009. We do not expect the impact of the adoption of SFAS 160 to be material.

In February 2008, the FASB issued FSP 157-2, which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements. FSP 157-2 partially defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. The adoption of SFAS 157 for all nonfinancial assets and nonfinancial liabilities is effective for us beginning January 1, 2009. We do not expect the impact of this adoption to be material.

In April 2008, the FASB issued FSP 142-3. This guidance is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS 142, and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R when the underlying arrangement includes renewal or extension of terms that would require

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

substantial costs or result in a material modification to the asset upon renewal or extension. Companies estimating the useful life of a recognized intangible asset must now consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, must consider assumptions that market participants would use about renewal or extension as adjusted for SFAS 142 s entity-specific factors. FSP 142-3 is effective for us beginning January 1, 2009. We do not expect the impact of the adoption of FSP 142-3 to be material.

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

We compute net income per share of Class A and Class B common stock in accordance with SFAS No. 128, *Earnings per Share* (SFAS 128) using the two-class method. Under the provisions of SFAS 128, basic net income per share is computed using the weighted average number of common shares outstanding during the period except that it does not include unvested common shares subject to repurchase or cancellation. Diluted net income per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options, warrants, restricted shares, restricted stock units and unvested common shares subject to repurchase or cancellation. The dilutive effect of outstanding stock options, restricted shares, restricted stock units and warrants is reflected in diluted earnings per share by application of the treasury stock method. The computation of the diluted net income per share of Class A common stock assumes the conversion of Class B common stock, while the diluted net income per share of Class B common stock does not assume the conversion of those shares.

The rights, including the liquidation and dividend rights, of the holders of our Class A and Class B common stock are identical, except with respect to voting. Further, there are a number of safeguards built into our Certificate of Incorporation, as well as Delaware law, which preclude our board of directors from declaring or paying unequal per share dividends on our Class A and Class B common stock. Specifically, Delaware law provides that amendments to our Certificate of Incorporation which would have the affect of adversely altering the rights, powers or preferences of a given class of stock (in this case the right of our Class A common stock to receive an equal dividend to any declared on our Class B common stock) must be approved by the class of stock adversely affected by the proposed amendment. In addition, our Certificate of Incorporation provides that before any such amendment may be put to a stockholder vote, it must be approved by the unanimous consent of our Board of Directors. As a result, and in accordance with EITF Issue No. 03-6, *Participating Securities and the Two-Class Method under FASB Statement No. 128,* the undistributed earnings for each year are allocated based on the contractual participation rights of the Class A and Class B common shares as if the earnings for the year had been distributed. As the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis. Further, as we assume the conversion of Class B common stock in the computation of the diluted net income per share of Class A common stock, the undistributed earnings are equal to net income for that computation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Year Ended December 31,					
	2006		2007		2008	
	Class A	Class B	Class A	Class B	Class A	Class B
Basic net income per share:						
Numerator:						
Allocation of undistributed earnings	$ 2,197,851	$ 879,595	$ 3,131,292	$ 1,072,428	$ 3,208,968	$ 1,017,890
Denominator:						
Weighted average common shares outstanding	216,589	86,681	232,131	79,421	238,473	75,614
Less: Weighted average unvested common shares subject to repurchase or cancellation	(1,333)	(534)	(616)	(130)	(120)	(8)
Number of shares used in per share computations	215,256	86,147	231,515	79,291	238,353	75,606
Basic net income per share	$ 10.21	$ 10.21	$ 13.53	$ 13.53	$ 13.46	$ 13.46
Diluted net income per share:						
Numerator:						
Allocation of undistributed earnings for basic computation	$ 2,197,851	$ 879,595	$ 3,131,292	$ 1,072,428	$ 3,208,968	$ 1,017,890
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares	879,595		1,072,428		1,017,890	
Reallocation of undistributed earnings to Class B shares		(3,134)		(7,732)		(8,321)
Allocation of undistributed earnings	$ 3,077,446	$ 876,461	$ 4,203,720	$ 1,064,696	$ 4,226,858	$ 1,009,569
Denominator:						
Number of shares used in basic computation	215,256	86,147	231,515	79,291	238,353	75,606
Weighted average effect of dilutive securities						
Add:						
Conversion of Class B to Class A common shares outstanding	86,147		79,291		75,606	
Unvested common shares subject to repurchase or cancellation	1,867	534	746	130	128	8
Employee stock options	5,916	1,479	3,690	667	2,810	223
Restricted shares and RSUs	362		968		617	
Number of shares used in per share computations	309,548	88,160	316,210	80,088	317,514	75,837
Diluted net income per share	$ 9.94	$ 9.94	$ 13.29	$ 13.29	$ 13.31	$ 13.31

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

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Google Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3. Cash and Investments

We have classified our investments in auction rate securities (ARS) as non-current assets on the accompanying Consolidated Balance Sheet at December 31, 2008. As of December 31, 2007, these securities were classified as marketable securities. As a result, these amounts have been excluded from the December 31, 2008 balances in the tables below.

Cash, cash equivalents and marketable securities consist of the following (in thousands):

	As of December 31, 2007	As of December 31, 2008
Cash and cash equivalents:		
Cash	$ 2,869,528	$ 3,330,658
Cash equivalents:		
U.S. government agencies	110,272	
Municipal securities	232,278	14,250
Time deposits	500,000	3,015,557
Money market mutual funds	2,369,515	2,296,207
Total cash and cash equivalents	6,081,593	8,656,672
Marketable securities:		
U.S. government notes	475,781	
U.S. government agencies	2,120,972	3,342,406
Municipal securities	4,991,564	2,721,603
Time deposits	500,000	
Money market mutual funds		73,034
Corporate debt securities		907,056
Auction rate preferred securities	48,703	
Marketable equity security		145,000
Total marketable securities	8,137,020	7,189,099
Total cash, cash equivalents and marketable securities	$ 14,218,613	$ 15,845,771

The following table summarizes unrealized gains and losses related to our investments in marketable securities designated as available-for-sale (in thousands):

	As of December 31, 2007			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government notes	$ 472,040	$ 3,745	$ (4)	$ 475,781
U.S. government agencies	2,102,710	18,306	(44)	2,120,972
Municipal securities	4,975,587	16,308	(331)	4,991,564
Time deposits	500,000			500,000
Auction rate preferred securities	48,703			48,703

Total marketable securities	$ 8,099,040	$ 38,359	$ (379)	$ 8,137,020

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Google Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	As of December 31, 2008			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agencies	$ 3,324,750	$ 17,747	$ (91)	$ 3,342,406
Municipal securities	2,690,270	34,685	(3,352)	2,721,603
Money market mutual funds	73,034			73,034
Corporate debt securities	903,963	3,265	(172)	907,056
Total marketable securities	$ 6,992,017	$ 55,697	$ (3,615)	$ 7,044,099

Time deposits were held by institutions outside the U.S. at December 31, 2007 and at December 31, 2008. Gross unrealized gains and losses on cash equivalents were not material at December 31, 2007 and December 31, 2008.

Our corporate debt securities are guaranteed by the full faith and credit of the United States government under the Federal Deposit Insurance Corporation s Temporary Liquidity Guarantee Program (TLGP) or the sovereign guarantee of foreign governments under similar programs to the TLGP.

We recognized gross realized gains of $81.7 million and $105.8 million on the sale of our marketable securities in the years ended December 31, 2007 and December 31, 2008. We recognized gross realized losses of $30.5 million and $11.6 million in the years ended December 31, 2007 and December 31, 2008. Realized gains and losses are included in interest income and other, net, in our accompanying Consolidated Statements of Income.

In November 2008, we invested $500 million in Clearwire. Clearwire is our only marketable equity security at December 31, 2008.

We review our investment in Clearwire for impairment in accordance with FSP 115-1. Based on our review, our investment in Clearwire is impaired. Primarily due to the severity of the decline in the market value of Clearwire s common stock, we believe that such impairment is other-than-temporary at December 31, 2008. As a result, in the fourth quarter of 2008, we recorded a $355 million impairment charge. This amount is included under impairment of equity investments in the accompanying Consolidated Statement of Income.

We will continue to review this investment for impairment on a quarterly basis. There can be no assurance that additional impairment charges will not be required in the future, and any such amounts could be material to our Consolidated Statements of Income.

We did not recognize any other-than-temporary impairments for the years ended December 31, 2006 and December 31, 2007.

The following table summarizes the estimated fair value of our investments in marketable debt securities designated as available-for-sale classified by the contractual maturity date of the security (in thousands):

	As of December 31, 2008
Due within 1 year	$ 2,786,373
Due within 1 year through 5 years	2,787,656
Due within 5 years through 10 years	441,883
Due after 10 years	1,028,187
Total marketable debt securities	$ 7,044,099

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In accordance with EITF Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, the following table shows gross unrealized losses and fair value for those investments that were in an unrealized loss position as of December 31, 2007 and 2008, aggregated by investment category and the length of time that individual securities have been in a continuous loss position (in thousands):

	As of December 31, 2007					
	Less than 12 Months		12 Months or Greater		Total	
Security Description	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
U.S. government notes	$ 30,525	$ (4)	$	$	$ 30,525	$ (4)
U.S. government agencies	98,682	(41)	19,993	(3)	118,675	(44)
Municipal securities	270,708	(227)	54,832	(104)	325,540	(331)
Total	$ 399,915	$ (272)	$ 74,825	$ (107)	$ 474,740	$ (379)

	As of December 31, 2008			
	Less than 12 Months		Total	
Security Description	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
U.S. government agencies	$ 183,054	$ (91)	$ 183,054	$ (91)
Municipal securities	274,042	(3,352)	274,042	(3,352)
Corporate debt securities	199,828	(172)	199,828	(172)
Total	$ 656,924	$ (3,615)	$ 656,924	$ (3,615)

As of December 31, 2008, we did not have any investments in marketable securities that were in an unrealized loss position for 12 months or greater.

Auction Rate Securities

At December 31, 2008, we held $197.4 million of ARS. The assets underlying these 36 individual investments are primarily student loans which are mostly AAA rated and substantially guaranteed by the U.S. government under the Federal Family Education Loan Program. Historically, these securities have provided liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined intervals every 7 to 49 days. However, these auctions began to fail in the first quarter of 2008. Since these auctions have failed, we have realized higher interest rates for many of these ARS than we would have otherwise. Although we have been receiving interest payments at these generally higher rates, the related principal amounts will not be accessible until a successful auction occurs, a buyer is found outside of the auction process, the issuer calls the security, or the security matures according to contractual terms. Maturity dates for these ARS investments range from 2025 to 2047. Since these auctions have failed, $37.5 million of the related securities were called at par by their issuers.

As a result of the auction failures, these ARS do not have a readily determinable market value. To estimate their fair values at December 31, 2008, we used a discounted cash flow model based on estimated interest rates, timing and amount of cash flows, the credit quality of the underlying securities and illiquidity considerations. Specifically, we estimated the future cash flows of our ARS over the expected workout periods using a projected weighted average interest rate of 3.4% per annum, which is based on the forward swap curve at the end of December 2008 plus any additional basis points currently paid by the issuers assuming these auctions continue to fail. A discount factor was applied over these estimated cash flows of our ARS, which is calculated based on the interpolated forward swap curve adjusted by up to 1,100 basis points to reflect the current market conditions for instruments with similar credit quality at the date of the valuation and additionally adjusted for a liquidity discount of up to 400 basis points to reflect the risk in the marketplace for these investments that has arisen due to the lack of an active market.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At December 31, 2008, the estimated fair values of these ARS were $35.5 million ($21.0 million, net of tax effect) less than their costs. Based primarily on our ability and intent to hold these securities until recovery and the extent of impairment, we concluded the decline in fair values was temporary and recorded the unrealized loss to accumulated other comprehensive income on the accompanying Consolidated Balance Sheet at December 31, 2008.

To the extent we determine that any impairment is other-than-temporary, we would record a charge to earnings. In addition, we have concluded that the auctions for these securities may continue to fail for at least the next 12 months and as a result, they have been classified as non-current assets on our Consolidated Balance Sheet at December 31, 2008.

Investment in Non-Marketable Equity Security

We review our investment in AOL for impairment in accordance with FSP 115-1. Based on our review, our investment in AOL is impaired. After consideration of the duration and severity of the impairment, as well as the reasons for the decline in value and the potential recovery period, we believe that such impairment is other-than-temporary at December 31, 2008. As a result, in the fourth quarter of 2008, we recorded a $726 million impairment charge. This amount is included under impairment of equity investments in the accompanying Consolidated Statement of Income. The fair value of AOL is determined primarily based on a market multiple approach valuation technique, which required us to make judgmental estimates including forecasted revenue and earnings. In addition, we used a selection of comparable companies to perform comparative risk analysis in determining the fair value.

We will continue to review this investment for impairment on a quarterly basis. There can be no assurance that additional impairment charges will not be required in the future, and any such amounts could be material to our Consolidated Statements of Income.

As we have initiated the formal process to liquidate this investment, and expect to complete this process and liquidate the investment by December 31, 2009, we have classified it as a current asset on the accompanying Consolidated Balance Sheet at December 31, 2008.

Note 4. 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. Our program is not designated for trading or speculative purposes.

In accordance with SFAS 133, we recognize derivative instruments as either assets or liabilities on the balance sheet at fair value. Changes in the fair value (i.e., gains or losses) of the derivatives are recorded in the accompanying Consolidated Statements of Income as interest income and other, net, or as part of revenues, or on the accompanying Consolidated Balance Sheets as accumulated other comprehensive income.

Cash Flow Hedges

We use options designated as cash flow hedges to hedge certain forecasted revenue transactions denominated in currencies other than the U.S. dollar. Any gain on the effective portion of a cash flow hedge is initially reported as a component of accumulated other comprehensive income and subsequently reclassified to revenues when the hedged exposure affects revenues or as interest income and other, net, if the hedged transaction becomes probable of not occurring. The effective portion of our cash flow hedges, which we reclassified to revenues from accumulated other comprehensive income, was $167.8 million for the year ended December 31, 2008.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At December 31, 2008, the effective portion of our cash flow hedges before tax effect was $354.3 million, of which $306.0 million is expected to be reclassified from accumulated other comprehensive income to revenues within the next 12 months.

Any gain after a hedge is de-designated because the hedged transaction is no longer probable of occurring or related to an ineffective portion of a hedge is recognized as interest income and other, net, immediately. The ineffective portion of our cash flow hedges was a gain of $2.2 million for the year ended December 31, 2008. Further, the change in the time value of the options is excluded from our assessment of hedge effectiveness. The premium paid or time value of an option whose strike price is equal to or greater than the market price on the date of purchase is recorded as an asset. Thereafter, any change to this time value is included in interest income and other, net. Amounts recorded in interest income and other, net were $138.5 million for the year ended December 31, 2008.

At December 31, 2008, the notional principal and fair value of foreign exchange contracts to purchase U.S. dollars with Euros were 1.9 billion (or approximately $2.6 billion) and $152.0 million; the notional principal and fair value of foreign exchange contracts to purchase U.S. dollars with British pounds were £1.1 billion (or approximately $1.8 billion) and $277.9 million; and the notional principal and fair value of foreign exchange contracts to purchase U.S. dollars with Canadian dollars were C$229.7 million (or approximately $202.2 million) and $21.9 million. These foreign exchange options have maturities of 18 months or less. There were no other foreign exchange contracts designated as cash flow hedges.

Other Derivatives

Other derivatives not designated as hedging instruments under SFAS 133 consist of forward contracts that we use to hedge intercompany balances and other monetary assets or liabilities denominated in currencies other than the functional currency of the subsidiary. Gains and losses on these contracts as well as the related costs are included in interest income and other, net, along with the gains and losses of the related hedged items. During the year ended December 31, 2008, we recognized $30.5 million of costs related to these contracts. Costs incurred during the year ended December 31, 2007 were not material. The fair values of these foreign exchange contracts were not material at December 31, 2007 and December 31, 2008. The notional principal of foreign exchange contracts to purchase U.S. dollars with foreign currencies was $1.5 billion and $2.6 billion at December 31, 2007 and December 31, 2008. The notional principal of foreign exchange contracts to sell U.S. dollars for foreign currencies was $54.2 million at December 31, 2008. The notional principal of foreign exchange contracts to purchase Euros with other currencies was 296.5 million (or approximately $433.4 million) and 630.5 million (or approximately $897.6 million) at December 31, 2007 and December 31, 2008.

Note 5. Fair Value Measurements

Effective January 1, 2008, we adopted SFAS 157 and effective October 10, 2008, we adopted FSP No. SFAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*, except as it applies to the nonfinancial assets and nonfinancial liabilities subject to FSP 157-2. SFAS 157 clarifies that 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. As a basis for considering such assumptions, SFAS 157 establishes a three-tier value hierarchy, which prioritizes the 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 other inputs that are directly or indirectly observable in the marketplace.

Level 3 Unobservable inputs which are supported by little or no market activity.

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Google Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

In accordance with SFAS 157, we measure our cash equivalents, marketable securities, auction rate securities and foreign currency derivative contracts at fair value. Our cash equivalents and marketable securities are classified within Level 1 or Level 2. This is because our cash equivalents and marketable securities are valued using quoted market prices or alternative pricing sources and models utilizing market observable inputs. Our investments in auction rate securities and AOL are classified within Level 3 because they are valued using valuation techniques (see Note 3). Some of the inputs to these models are unobservable in the market and are significant. Our foreign currency derivative contracts are classified 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 thousands):

		Fair value measurement at reporting date using		
Description	**December 31, 2008**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
Cash equivalents:				
Municipal securities	$ 14,250	$	$ 14,250	$
Time deposits	3,015,557		3,015,557	
Money market mutual funds	2,296,207	2,296,207		
Marketable securities:				
U.S. government agencies	3,342,406		3,342,406	
Municipal securities	2,721,603		2,721,603	
Money market mutual funds	73,034		73,034	
Corporate debt securities	907,056		907,056	
Marketable equity securities	145,000	145,000		
Foreign currency derivative contracts	464,993		464,993	
Auction rate securities	197,361			197,361
Total assets	$ 13,177,467	$ 2,441,207	$ 10,538,899	$ 197,361
Liabilities				
Foreign currency derivative contracts	$ 877	$	$ 877	$
Total liabilities	$ 877	$	$ 877	$

The following table presents our assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in SFAS 157 at December 31, 2008 (in thousands):

	Level 3
Balance at December 31, 2007	$
Transfers to Level 3	311,225
Unrealized loss included in other comprehensive income	(35,485)
Net settlements	(78,379)

Balance at December 31, 2008	$ 197,361

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Asset measured at fair value on a nonrecurring basis is summarized below (in thousands):

Description	December 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Loss
Investment in AOL	$ 274,000	$	$	$ 274,000	$ 726,000

In accordance with the provisions of FSP 115-1, our investment in AOL with a carrying value of $1.0 billion was written down to its fair value of $274.0 million, resulting in an other-than-temporary impairment charge of $726.0 million, which was included in our results of operations for the year ended December 31, 2008 (See Note 3).

Effective January 1, 2008, we also adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*, which allows an entity to choose to measure certain financial instruments and liabilities at fair value on a contract-by-contract basis. Subsequent fair value measurement for the financial instruments and liabilities an entity chooses to measure will be recognized in earnings. As of December 31, 2008, we did not elect such option for our financial instruments and liabilities.

Note 6. Property and Equipment

Property and equipment consist of the following (in thousands):

	As of December 31, 2007	2008
Information technology assets	$ 2,734,916	$ 3,573,499
Construction in progress	1,364,651	1,643,136
Land and buildings	951,334	1,725,336
Leasehold improvements	416,884	572,908
Furniture and fixtures	52,127	61,462
Total	5,519,912	7,576,341
Less accumulated depreciation and amortization	1,480,651	2,342,498
Property and equipment, net	$ 4,039,261	$ 5,233,843

Note 7. Acquisitions

In March 2008, we acquired Click Holding Corp. (DoubleClick), a company that offers online ad serving and management services to advertisers, ad agencies and web site publishers. We acquired DoubleClick primarily for their customer relationships, as well as patents and developed technology. This transaction was accounted for as a business combination. In August 2008, we sold the search marketing business of Performics, a division of DoubleClick, for approximately $53 million paid in cash. As the sale of Performics was planned at the time of the acquisition of DoubleClick, the proceeds from the sale are netted against the purchase price of DoubleClick. The total net purchase price of DoubleClick was $3.2 billion paid in cash, including transaction costs of $70.4 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the allocation of the purchase price of DoubleClick as of December 31, 2008 (in thousands):

Goodwill	$ 2,353,503
Customer relationships	629,600
Patents and developed technology	143,400
Tradenames and other	27,800
Net assets acquired	83,276
Deferred tax assets	257,003
Deferred tax liabilities	(301,179)
Total	$ 3,193,403

Goodwill is not deductible for tax purposes.

Customer relationships have a weighted average useful life of 6.7 years. Patents and developed technology have a weighted average useful life of 5.0 years. Tradenames and other have a weighted average useful life of 5.5 years. The majority of these assets are not deductible for tax purposes.

Supplemental information on an unaudited pro forma basis, as if the DoubleClick acquisition had been consummated at the beginning of each of the periods presented, is as follows (in millions, except per share amounts):

	Year Ended December 31,	
	2007	2008
	(unaudited)	
Revenues	$ 16,927	$ 21,865
Net income	4,007	4,204
Net income per share of Class A and Class B common stock - diluted	12.67	13.24

The unaudited pro forma supplemental information is based on estimates and assumptions, which we believe are reasonable. It is not necessarily indicative of our consolidated financial position or results of income in future periods or the results that actually would have been realized had we been a combined company as of the beginning of the periods presented. The unaudited pro forma supplemental information includes incremental intangible asset amortization and other charges as a result of the acquisition, net of the related tax effects.

In connection with certain acquisitions in prior periods, we are obligated to make additional cash payments if certain criteria are met. As of December 31, 2008, our remaining contingent obligations related to these acquisitions was approximately $37 million, which if the criteria are met, would be recorded as part of the purchase price. Since these contingent payments are based on the achievement of performance targets, actual payments may be substantially lower.

Note 8. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the twelve months ended December 31, 2008 are as follows (in thousands):

Balance as of December 31, 2007	$ 2,299,368
Goodwill acquired, net of divestiture	2,364,128
Goodwill adjustment	176,358
Balance as of December 31, 2008	$ 4,839,854

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The goodwill adjustment of $176.4 million was primarily a result of contingent payments earned upon the achievement of certain performance targets.

Information regarding our acquisition-related intangible assets that are being amortized is as follows (in thousands):

	As of December 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Patents and developed technology	$ 364,937	$ 179,102	$ 185,835
Customer relationships	171,876	37,738	134,138
Tradenames and other	196,392	69,769	126,623
Total	$ 733,205	$ 286,609	$ 446,596

	As of December 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Patents and developed technology	$ 551,332	$ 297,428	$ 253,904
Customer relationships	800,113	153,516	646,597
Tradenames and other	209,492	113,303	96,189
Total	$ 1,560,937	$ 564,247	$ 996,690

Patents and developed technology, customer relationships, and tradenames and other have weighted average useful lives from the date of purchase of 4.0 years, 6.4 years and 4.9 years. Amortization expense of acquisition-related intangible assets for the years ended December 31, 2006, 2007 and 2008 was $74.2 million, $158.2 million and $279.7 million. Expected amortization expense for acquisition-related intangible assets on our December 31, 2008 Consolidated Balance Sheet for each of the next five years and thereafter is as follows (in thousands):

2009	$ 251,769
2010	220,896
2011	169,154
2012	129,700
2013	104,005
Thereafter	121,166
	$ 996,690

Note 9. Interest Income and Other, Net

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

	Year Ended December 31,		
	2006	2007	2008
Interest income	$ 412,063	$ 559,205	$ 389,533
Realized gains on marketable securities, net	40,202	51,198	94,205
Foreign exchange gains (losses), net	5,317	(16,169)	(171,877)
Other, net	3,462	(4,654)	4,523
Interest income and other, net	$ 461,044	$ 589,580	$ 316,384

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 10. Comprehensive Income

The changes in the components of other comprehensive income were as follows (in thousands):

	Year Ended December 31,		
	2006	2007	2008
Net income	$ 3,077,446	$ 4,203,720	$ 4,226,858
Change in unrealized gains (losses) on marketable securities, net of taxes	(19,309)	29,029	(12,506)
Change in cumulative translation adjustment	38,601	61,033	(84,195)
Change in unrealized gains on cash flow hedges, net of taxes			209,907
Comprehensive income	$ 3,096,738	$ 4,293,782	$ 4,340,064

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

	As of December 31,	
	2007	2008
Unrealized gains on marketable securities, net of taxes	$ 22,501	$ 9,995
Cumulative translation adjustment	90,872	6,677
Unrealized gains on cash flow hedges, net of taxes		209,907
Accumulated other comprehensive income	$ 113,373	$ 226,579

Note 11. Commitments and Contingencies

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 between 2009 and 2063. We are committed to pay a portion of the related actual operating expenses under certain of these lease agreements. These operating expenses are not included in the table below. Certain of these arrangements have free or escalating rent payment provisions. We recognize rent expense under such arrangements on a straight-line basis.

At December 31, 2008, future minimum payments under non-cancelable operating leases, along with sublease income amounts, are as follows over each of the next five years and thereafter (in thousands):

	Operating Leases	Sub-lease Income	Net Operating Leases
2009	$ 302,403	$ 26,974	$ 275,429
2010	298,551	24,548	274,003
2011	277,256	21,388	255,868
2012	248,582	12,031	236,551
2013	217,615	6,185	211,430

Thereafter	1,615,563	10,850	1,604,713
Total minimum payments required	$ 2,959,970	$ 101,976	$ 2,857,994

Rent expense under operating leases was $80.7 million, $127.9 million and $215.6 million in 2006, 2007, and 2008.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Guaranteed Minimum Revenue Share Payments

In connection with our AdSense revenue share agreements, we are periodically required to make non-cancelable guaranteed minimum payments to a small number of our Google Network members over the term of the respective contracts. Under our contracts, these guaranteed payments may be prorated down based on our Google Network members not achieving defined performance targets, such as number of advertisements displayed or search queries. In most cases, certain guaranteed amounts will be adjusted downward if our Google Network members do not meet their performance targets. In all of these AdSense agreements, if a Google Network member were unable to perform under the contract, such as being unable to provide search queries, as defined under the terms of that agreement, then we would not be obligated to make any non-cancelable guaranteed minimum revenue payments to that member. At December 31, 2008, our aggregate outstanding non-cancelable guaranteed minimum revenue share commitments totaled $1,030.3 million through 2012 compared to $1,746.4 million at December 31, 2007.

Purchase Obligations

We had $140.9 million of other non-cancelable contractual obligations and $1.3 billion of open purchase orders for which we had not received the related services or goods at December 31, 2008. We have the right to cancel these open purchase orders prior to the date of delivery. The majority of these purchase obligations are related to data center operations and facility build-outs.

Letters of Credit

At December 31, 2008 and associated with several leased facilities, we had unused letters of credit for $109.9 million. At December 31, 2008, we were in compliance with our financial covenants under the letters of credit.

Indemnifications

In the normal course of business to facilitate transactions of our services and products, we indemnify certain parties, including advertisers, Google Network members and lessors, with respect to certain matters. We have agreed to hold certain parties harmless against losses arising from a breach of representations or covenants, or out of intellectual property infringement or other claims made against certain parties. These agreements may limit the time within which an indemnification claim can be made and the amount of the claim. In addition, we have entered into indemnification agreements with our officers and directors, and our bylaws contain similar indemnification obligations to our agents.

It is not possible to determine the maximum potential amount under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Historically, payments made by us under these agreements have not had a material impact on our operating results, financial position, or cash flows.

Legal Matters

Companies have filed trademark infringement and related claims against us over the display of ads in response to user queries that include trademark terms. The outcomes of these lawsuits have differed from jurisdiction to jurisdiction. We currently have three cases pending at the European Court of Justice, which will address questions regarding whether advertisers and search engines can be held liable for use of trademarked terms in keyword advertising. We are litigating, or have recently litigated similar issues in other cases, in the U.S., Australia, Austria, Brazil, China, France, Germany, Israel, and Italy.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We have also had copyright claims filed against us alleging that features of certain of our products and services, including Google Web Search, Google News, Google Video, Google Image Search, Google Book Search and YouTube, infringe their rights. Adverse results in these lawsuits may include awards of substantial monetary damages, costly royalty or licensing agreements or orders preventing us from offering certain functionalities, and may also result in a change in our business practices, which could result in a loss of revenue for us or otherwise harm our business. In addition, any time one of our products or services links to or hosts material in which others allegedly own copyrights, we face the risk of being sued for copyright infringement or related claims. Because these products and services comprise the majority of our products and services, our business could be harmed in the event of an adverse result in any of these claims.

We have also had patent lawsuits filed against us alleging that certain of our products and services, including Google Web Search, Google AdWords, Google AdSense and Google Chrome, infringe patents held by others. In addition, the number of demands for license fees and the dollar amounts associated with each request continue to increase. Adverse results in these lawsuits, or our decision to license patents based upon these demands, may result in substantial costs and, in the case of adverse litigation results, could prevent us from offering certain features, functionalities, products or services, which could result in a loss of revenue for us or otherwise harm our business.

We are also a party to other litigation and subject to claims incident to the ordinary course of business, including intellectual property claims (in addition to the trademark and copyright matters noted above), labor and employment claims and threatened claims, breach of contract claims, tax and other matters.

Although the results of litigation and claims cannot be predicted with certainty, we believe that the final outcome of the matters discussed above will not have a material adverse effect on our business, consolidated financial position, results of operations or cash flows.

Income Taxes

We are currently under audit by the 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 12. Stockholders Equity

Convertible Preferred Stock

Our Board of Directors has authorized 100,000,000 shares of convertible preferred stock, $0.001 par value, issuable in series. At December 31, 2007 and 2008, there were no shares issued or outstanding.

Class A and Class B Common Stock

Our Board of Directors has authorized two classes of common stock, Class A and Class B. At December 31, 2008, there were 6,000,000,000 and 3,000,000,000 shares authorized and there were 240,099,511 and 75,040,973 shares legally outstanding of Class A and Class B common stock. The rights of the holders of Class A and Class B common stock are identical, except with respect to voting. Each share of Class A common stock is entitled to one vote per share. Each share of Class B common stock is entitled to 10 votes per share. Shares of Class B common stock may be converted at any time at the option of the stockholder and automatically convert upon sale or transfer to Class A common stock. We refer to Class A and Class B common stock as common stock throughout the notes to these financial statements, unless otherwise noted.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At December 31, 2007 and December 31, 2008, there were 14,533,423 and 23,236,325 shares of common stock reserved for future issuance.

Stock Plans

We maintain the 1998 Stock Plan, the 2000 Stock Plan, the 2003 Stock Plan, the 2003 Stock Plan (No. 2), the 2003 Stock Plan (No. 3), the 2004 Stock Plan and plans assumed through acquisitions, all of which are collectively referred to as the Stock Plans. Under our Stock Plans, incentive and nonqualified stock options or rights to purchase common stock may be granted to eligible participants. Options are generally granted for a term of 10 years. Options granted under the Stock Plans generally vest 25% after the first year of service and ratably each month over the remaining 36 month period contingent upon employment with us on the date of vest. Options granted under Stock Plans other than the 2004 Stock Plan may be exercised prior to vesting.

Under the stock plans, we have also issued RSUs and restricted shares. An RSU award is an agreement to issue shares of our stock at the time of vest. RSUs issued to new employees vest over four years with a yearly cliff contingent upon employment with us on the dates of vest. These RSUs vest from zero to 37.5 percent of the grant amount at the end of each of the four years from date of hire based on the employee s performance. RSUs under the Founders Award programs are issued to individuals on teams that have made extraordinary contributions to Google. These awards vest quarterly over four years contingent upon employment with us on the dates of vest.

We estimated the fair value of each option award on the date of grant using the BSM option pricing model. Our assumptions about stock-price volatility have been based exclusively on the implied volatilities of publicly traded options to buy our stock with contractual terms closest to the expected life of options granted to our employees applying the guidance provided by Staff Accounting Bulletin No. 107, *Share-Based Payment*. Through the third quarter of 2007, our assumptions about the expected term had been based on that of companies that had option vesting and contractual terms, expected stock volatility and employee demographics and physical locations that were similar to ours because we had limited relevant historical information to support the expected sale and exercise behavior of our employees who had been granted options recently. Commencing in the fourth quarter of 2007, we began to estimate the expected term based upon the historical exercise behavior of our employees. The risk-free interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of grant.

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

	Year Ended December 31,		
	2006	**2007**	**2008**
Risk-free interest rate	4.7%	4.4%	3.2%
Expected volatility	34%	34%	35%
Expected life (in years)	3.6	5.1	5.3
Dividend yield			
Weighted average estimated fair value of options granted during the year	$ 158.59	$ 213.56	$ 203.58

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the activity for our options for the twelve months ended December 31, 2008:

	Options Outstanding			
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions) (1)
Balance at December 31, 2007	12,892,886	$ 333.62		
Options granted	3,177,238	$ 500.07		
Exercised (2)	(1,536,860)	$ 58.66		
Canceled/forfeited	(561,826)	$ 450.19		
Balance at December 31, 2008	13,971,438	$ 391.40	7.0	$ 632.0
Vested and exercisable as of December 31, 2008	7,026,688	$ 295.02	6.7	$ 544.6
Vested and exercisable as of December 31, 2008 and expected to vest thereafter (3)	13,388,416	$ 387.33	7.0	$ 624.9

(1) The aggregate intrinsic value is calculated as the excess, if any, of the closing price of $307.65 of our Class A common stock on December 31, 2008 over the exercise price of the underlying awards.

(2) Includes options vested during the period that were early exercised.

(3) Options expected to vest reflect an estimated forfeiture rate.

The following table summarizes additional information regarding outstanding, exercisable, and exercisable and vested stock options at December 31, 2008:

Range of Exercise	Options Outstanding					Options Exercisable		Options Exercisable and Vested	
Prices	Total Number of Shares	Unvested Options Granted and Exercised Subsequent to March 21, 2002	Number of Shares	Weighted Average Remaining Life (in years)	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
$0.30 $94.80	1,340,732	26,068	1,314,664	4.8	$ 19.69	1,244,880	$ 18.32	1,067,206	$ 19.65
$117.84 $198.41	1,576,111		1,576,111	4.2	$ 176.66	1,505,304	$ 176.11	1,503,441	$ 176.09
$205.96 $298.91	1,370,309		1,370,309	5.2	$ 274.70	1,122,558	$ 273.70	1,121,722	$ 273.68

$300.97	$399.00	1,759,907		1,759,907	5.8	$ 329.97	1,255,409	$ 327.37	1,252,719	$ 327.32
$401.78	$499.07	1,656,645		1,656,645	7.5	$ 450.82	738,304	$ 445.53	735,828	$ 444.56
$500.00	$594.05	6,016,466		6,016,466	8.7	$ 545.51	1,294,967	$ 546.19	1,290,628	$ 546.32
$615.95	$699.35	200,564		200,564	8.9	$ 655.23	40,814	$ 662.13	40,814	$ 662.13
$707.00	$732.94	50,704		50,704	8.8	$ 718.20	14,330	$ 718.31	14,330	$ 718.31
$0.30	$732.94	13,971,438	26,068	13,945,370	7.0	$ 391.40	7,216,566	$ 288.18	7,026,688	$ 295.02

Options outstanding at December 31, 2007 and December 31, 2008 in the above tables include 360,679 and 26,068 options granted and exercised subsequent to March 21, 2002 that are unvested at December 31, 2007 and 2008, in accordance with EITF Issue No. 00-23, *Issues Related to Accounting for Stock Compensation Under APB Opinion No. 25 and FASB Interpretation No. 44.* However, the computations of the weighted average exercise prices, weighted average remaining contractual term and aggregate intrinsic value do not consider these unvested shares. Further, the above tables include 1,529,512 warrants held by financial institutions that were options purchased from employees under our TSO program.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The total grant date fair value of stock options vested during 2006, 2007 and 2008 was $392.9 million, $635.1 million, and $692.5 million. The aggregate intrinsic value of all options exercised during 2006, 2007 and 2008 was $1,904.0 million, $1,279.0 million and $503.2 million. These amounts do not include the aggregate sales price of options sold under our TSO program.

During 2008, the number of shares underlying TSOs sold to selected financial institutions under the TSO program was 605,113 at a total value of $149.4 million, or an average of $246.90 per share, and an average premium of $39.69 per share. The premium is calculated as the difference between (a) the sale price of the TSO and (b) the intrinsic value of the TSO, which we define as the excess, if any, of the price of our Class A common stock at the time of the sale over the exercise price of the TSO. At December 31, 2008, the number of options eligible for participation under the TSO program was approximately 10.5 million.

As of December 31, 2008, there was $1,101.5 million of unrecognized compensation cost related to outstanding employee stock options, net of forecasted forfeitures. This amount does not include the estimated $400 million modification charge related to our employee stock option exchange (see Note 16). This amount is expected to be recognized over a weighted average period of 2.8 years. To the extent the forfeiture rate is different from what we have anticipated, stock-based compensation related to these awards will be different from our expectations.

The following table summarizes the activity for our unvested RSUs and restricted shares for the twelve months ended December 31, 2008:

	Unvested Restricted Stock Units and Restricted Shares	
	Number of Shares	Weighted Average Grant-Date Fair Value
Unvested at December 31, 2007	2,990,222	$ 526.92
Granted	1,520,576	$ 473.43
Vested	(951,551)	$ 481.94
Forfeited	(291,158)	$ 520.07
Unvested at December 31, 2008	3,268,089	$ 514.56
Expected to vest after December 31, 2008 (1)	3,005,008	$ 514.56

(1) RSUs and restricted shares expected to vest reflect an estimated forfeiture rate.

As of December 31, 2008, there was $1,336.4 million of unrecognized compensation cost related to employee unvested RSUs and restricted shares, net of forecasted forfeitures. This amount is expected to be recognized over a weighted average period of 2.8 years. To the extent the actual forfeiture rate is different from what we have anticipated, stock-based compensation related to these awards will be different from our expectations.

Note 13. 401(k) Plan

We have a 401(k) Savings Plan (401(k) Plan) that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under the 401(k) Plan, participating employees may elect to contribute up to 60% of their eligible compensation, subject to certain limitations. Employee and our contributions are fully vested when contributed. We contributed approximately $14.3 million, $51.1 million and $72.6 million during 2006, 2007 and 2008.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 14. Income Taxes

Income before income taxes included income from foreign operations of $1,318.4 million, $2,466.9 million and $3,793.7 million for 2006, 2007 and 2008.

The provision for income taxes consisted of the following (in thousands):

	Year Ended December 31,		
	2006	2007	2008
Current:			
Federal	$ 812,280	$ 1,288,310	$ 1,348,210
State	191,266	294,935	467,572
Foreign	28,516	51,227	90,930
Total	1,032,062	1,634,472	1,906,712
Deferred:			
Federal	(80,073)	(135,047)	(197,593)
State	(18,395)	(29,165)	(62,538)
Foreign			(19,843)
Total	(98,468)	(164,212)	(279,974)
Provision for income taxes	$ 933,594	$ 1,470,260	$ 1,626,738

The reconciliation of federal statutory income tax rate to our effective income tax rate is as follows (in thousands):

	Year ended December 31,		
	2006	2007	2008
Expected provision at federal statutory tax rate (35%)	$ 1,403,864	$ 1,985,893	$ 2,048,758
State taxes, net of federal benefit	112,366	172,750	263,272
Stock-based compensation expense	26,878	123,869	90,805
Disqualifying dispositions of incentive stock options	(6,128)		
Impairment charges			312,603
Foreign rate differential	(505,729)	(705,400)	(1,019,536)
Federal research credit	(77,859)	(81,469)	(51,841)
Tax exempt interest	(31,583)	(50,662)	(51,713)
Other permanent differences	11,785	25,279	34,390
Provision for income taxes	$ 933,594	$ 1,470,260	$ 1,626,738

We have not provided U.S. income taxes and foreign withholding taxes on the undistributed earnings of foreign subsidiaries as of December 31, 2008 because we intend to permanently reinvest such earnings outside the U.S. If these foreign earnings were to be repatriated in the future, the related U.S. tax liability may be reduced by any foreign income taxes previously paid on these earnings. As of December 31, 2008, the cumulative amount of earnings upon which U.S. income taxes have not been provided is approximately $7.7 billion. Determination of the amount of unrecognized deferred tax liability related to these earnings is not practicable.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred Tax Assets

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financing reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets and liabilities are as follows (in thousands):

	As of December 31,	
	2007	**2008**
Deferred tax assets:		
Stock-based compensation	$ 118,297	$ 211,311
State taxes	86,256	132,827
Capital loss from impairment of equity investments		446,770
Settlement with the Authors Guild and AAP		38,810
Depreciation	53,900	19,666
Vacation accruals	18,868	24,903
Deferred rent	17,498	38,048
Accruals and reserves not currently deductible	9,824	32,080
Acquired net operating losses		60,306
Other	14,674	10,442
Total deferred tax assets	319,317	1,015,163
Valuation allowance		(364,529)
Total deferred tax assets net of valuation allowance	319,317	650,634
Deferred tax liabilities:		
Identified intangibles	(127,700)	(249,679)
Undistributed earnings of foreign subsidiaries	(55,329)	
Unrealized gains on investments and other	(30,187)	(123,231)
Other	(4,344)	(4,134)
Total deferred tax liabilities	(217,560)	(377,044)
Net deferred tax assets	$ 101,757	$ 273,590

As of December 31, 2008, our federal and state net operating loss carryforwards for income tax purposes were approximately $186.7 million and $92.6 million. If not utilized, the federal net operating loss carryforwards will begin to expire in 2025 and the state net operating loss carryforwards will begin to expire in 2011. The net operating loss carryforwards are subject to various limitations under Section 382 of the Internal Revenue Code.

On October 3, 2008, the United States enacted a law, the Emergency Economic Stabilization Act of 2008, which contains the Tax Extenders and Alternative Minimum Tax Relief Act of 2008. Under this act, the federal research and development credit was retroactively extended for amounts paid or incurred after December 31, 2007 and before January 1, 2010. During the fourth quarter, there were various changes to the income tax laws in the states where we conduct business. The tax effects of these changes were determined and recognized in the fourth quarter.

In the fourth quarter of 2008, we recorded $1.09 billion impairment charge related primarily to our investments in AOL and Clearwire. For tax purposes, the impairment generated an equal amount of capital loss of which $201.7 million was realized for tax purpose, and resulted in a tax benefit of $82.3 million in the fourth quarter. However, we determined based on all positive and negative evidence available that it is more likely than not that the tax-benefit of $364.5 million related to the remaining capital loss of $893.2 million cannot be realized and therefore a valuation allowance was established. We are required to reassess the valuation allowance quarterly, if future evidence allows for a partial or full release of the valuation allowance, a tax benefit will be recorded accordingly.

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Google Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Uncertain Tax Positions

The following table summarizes the activity related to our gross unrecognized tax benefits from January 1, 2007 to December 31, 2008 (in thousands):

Balance as of January 1, 2007	$ 243,588
Increases related to prior year tax positions	29,854
Decreases related to prior year tax positions	(18,997)
Increases related to current year tax positions	132,742
Balance as of December 31, 2007	387,187
Increases related to prior year tax positions	111,872
Decreases related to prior year tax positions	(14,563)
Increases related to current year tax positions	236,564
Balance as of December 31, 2008	$ 721,060

Our total unrecognized tax benefits that, if recognized, would affect our effective tax rate were $283.5 million and $561.3 million as of December 31, 2007 and December 31, 2008.

As of December 31, 2008, we had accrued $32.1 million for payment of interest. Interest included in our provision for income taxes was not material in all the periods presented. We have not accrued any penalties related to our uncertain tax positions as we believe that it is more likely than not that there will not be any assessment of penalties.

We and our subsidiaries are routinely examined by various taxing authorities. Although we file U.S. federal, U.S. state, and foreign tax returns, our two major tax jurisdictions are the U.S. and Ireland. During the fourth quarter ended December 31, 2007, the IRS completed its examination of our 2003 and 2004 tax years. We have filed an appeal with the IRS for certain issues related to this audit, but we believe we have adequately provided for these items and any adverse results would have an immaterial impact on our unrecognized tax benefit balance within the next twelve months. The IRS commenced its examination of our 2005 and 2006 tax years in early 2008. We do not expect the examination to be completed within the next twelve months, therefore we do not anticipate any significant impact to our unrecognized tax benefit balance in 2009, related to 2005 and 2006 tax years.

Our 2007 and 2008 tax years remain subject to examination by the IRS for U.S. federal tax purposes, and our 2002 through 2008 tax years remain subject to examination by the appropriate governmental agencies for Irish tax purposes. There are various other on-going audits in various other jurisdictions that are not material to our financial statements.

Note 15. Information about Geographic Areas

Our chief operating decision-makers (i.e., chief executive officer, certain of his direct reports and our founders) review financial information presented on a consolidated basis, accompanied by disaggregated information about revenues by geographic region for purposes of allocating resources and evaluating financial performance. There are no segment managers who are held accountable by our chief operating decision-makers, or anyone else, for operations, operating results and planning for levels or components below the consolidated unit level. Accordingly, we consider ourselves to be in a single reporting segment and operating unit structure.

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Google Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Revenues by geography are based on the billing address of the advertiser. The following table sets forth revenues and long-lived assets by geographic area (in thousands):

	Year Ended December 31,		
	2006	2007	2008
Revenues:			
United States	$ 6,030,140	$ 8,698,021	$ 10,635,553
United Kingdom	1,603,842	2,530,916	3,038,488
Rest of the world	2,970,935	5,365,049	8,121,509
Total revenues	$ 10,604,917	$ 16,593,986	$ 21,795,550

	As of December 31,	
	2007	2008
Long-lived assets:		
United States	$ 7,334,877	$ 9,782,825
International	711,791	1,806,568
Total long-lived assets	$ 8,046,668	$ 11,589,393

Note 16. Subsequent Event

On February 3, 2009, we commenced an exchange offer to allow employees the opportunity to exchange all or a portion of their eligible outstanding stock options for the same number of new options. We expect that new options will have an exercise price equal to the closing price per share of our common stock on March 6, 2009 and that stock options with exercise prices above this closing price will be eligible for the exchange offer. Generally, all employees with options are eligible to participate in the program (Eric Schmidt, Sergey Brin, and Larry Page do not hold options). The exchange offer is currently set to expire at 6 a.m. Pacific Time on March 9, 2009.

The number of common shares subject to outstanding options will not change as a result of the exchange offer. New options issued as part of the exchange offer will be subject to a new vesting schedule which adds 12 months to the original applicable vesting dates. In addition, new options will vest no sooner than six months after the close of the offer period. The expiration dates of the new options will remain the same as the expiration dates of the options being exchanged.

We expect to take a modification charge of approximately $400 million over the vesting periods of the new options which range from six months to five years. Assuming our exchange offer proceeds according to our planned timeline, this modification charge will be recorded as additional stock based compensation beginning in the first quarter of 2009. This modification charge is estimated assuming an exchange price of approximately $350 and that all eligible underwater options will be exchanged, and the actual amount of the modification charge is likely to be different from the estimate provided above.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the Exchange Act). In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on management s evaluation, our chief executive officer and chief financial officer concluded that, as of December 31, 2008, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting.

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes.

There were no changes in our internal control over financial reporting that occurred during the period covered by this Annual Report on Form 10-K that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

(c) Management s report on internal control over financial reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2008. Management reviewed the results of its assessment with our Audit Committee. The effectiveness of our internal control over financial reporting as of December 31, 2008 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in its report which is included in Item 8 of this Annual Report on Form 10-K.

ITEM 9B. OTHER INFORMATION

Not applicable.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Executive Officers of the Registrant

The names of our executive officers and their ages, titles and biographies as of January 31, 2009 are set forth below:

Name	Age	Position
Eric Schmidt	53	Chairman of the Board of Directors, Chief Executive Officer and Director
Sergey Brin	35	President of Technology and Director
Larry Page	36	President of Products and Director
Omid Kordestani	45	Senior Vice President of Global Sales and Business Development
David C. Drummond	45	Senior Vice President of Corporate Development, Chief Legal Officer and Secretary
Patrick Pichette	46	Senior Vice President and Chief Financial Officer
Jonathan J. Rosenberg	47	Senior Vice President of Product Management
Shona L. Brown	42	Senior Vice President of Business Operations
Alan Eustace	52	Senior Vice President of Engineering and Research

Our executive officers are appointed by, and serve at the discretion of, our board of directors. Each executive officer is a full-time employee. There is no family relationship between any of our executive officers or directors.

Eric Schmidt has served as our Chief Executive Officer since July 2001 and served as Chairman of our board of directors from March 2001 to April 2004 and again from April 2007 to the present. In April 2004, Eric was named Chairman of the Executive Committee of our board of directors. Prior to joining us, from April 1997 to November 2001, Eric served as Chairman of the board of Novell, a computer networking company, and, from April 1997 to July 2001, as the Chief Executive Officer of Novell. From 1983 until March 1997, Eric held various positions at Sun Microsystems, a supplier of network computing solutions, including Chief Technology Officer from February 1994 to March 1997 and President of Sun Technology Enterprises from February 1991 until February 1994. Eric is also a director of Apple Inc., an electronic device company. Eric has a Bachelor of Science degree in electrical engineering from Princeton University and a Masters degree and Ph.D. in computer science from the University of California at Berkeley.

Sergey Brin, one of our founders, has served as a member of our board of directors since our inception in September 1998 and as our President of Technology since July 2001. From September 1998 to July 2001, Sergey served as our President. Sergey holds a Masters degree in computer science from Stanford University and a Bachelor of Science degree with high honors in mathematics and computer science from the University of Maryland at College Park.

Larry Page, one of our founders, has served as a member of our board of directors since our inception in September 1998 and as our President of Products since July 2001. Larry served as our Chief Executive Officer from September 1998 to July 2001 and as our Chief Financial Officer from September 1998 to July 2002. Larry holds a Masters degree in computer science from Stanford University and a Bachelor of Science degree in engineering, with a concentration in computer engineering, from the University of Michigan.

Omid Kordestani has served as our Senior Vice President of Global Sales and Business Development, formerly known as Worldwide Sales and Field Operations, since May 1999. Prior to joining us, Omid served as Vice President of Business Development, from 1995 to 1999, at Netscape, an internet software and services company. Prior to Netscape, he held positions in business development, product management and marketing at The 3DO Company, a video game company, Go Corporation, a developer of software for mobile devices, and Hewlett-Packard, a provider of technology products, software and services. Omid holds a Masters of Business Administration degree from Stanford University and a Bachelor of Science degree in electrical engineering from San Jose State University.

David C. Drummond has served as our Senior Vice President of Corporate Development since January 2006 and as Chief Legal Officer since December 2006. Previously, he served as our Vice President of Corporate Development and General Counsel since February 2002. Prior to joining us, from July 1999 to February 2002, David served as Chief

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Financial Officer of SmartForce, an educational software applications company. Prior to that, David was a partner at the law firm of Wilson Sonsini Goodrich & Rosati. David holds a J.D. from Stanford University and a Bachelor of Arts degree in history from Santa Clara University.

Patrick Pichette has served as our Chief Financial Officer and Senior Vice President since August 2008. Prior to joining us, from January 2001 until July 2008, Patrick served as an executive officer of Bell Canada Enterprises Inc., a telecommunications company, including, most recently, as President Operations for Bell Canada, and previously as Executive Vice President, Chief Financial Officer and Executive Vice President of Planning and Performance Management. Prior to joining Bell Canada Enterprises, from 1996 to 2000, Patrick was a principal at McKinsey & Company, a management consulting firm. Prior to that, from 1994 to 1996, he served as Vice President and Chief Financial Officer of Call-Net Enterprises Inc., a Canadian telecommunications company. Patrick holds a Masters of Arts degree in philosophy, politics and economics from Oxford University (as a Rhodes Scholar), and a Bachelor of Arts degree in Business Administration from Université du Québec à Montréal.

Jonathan J. Rosenberg has served as our Senior Vice President of Product Management since January 2006. Previously, he served as our Vice President of Product Management since February 2002. Prior to joining us, from October 2001 to February 2002, Jonathan served as Vice President of Software for palmOne, a provider of handheld computer and communications solutions. From March 1996 to November 2000, Jonathan held various executive positions at Excite@Home, an internet media company, most recently as its Senior Vice President of Online Products and Services. Jonathan holds a Masters of Business Administration degree from the University of Chicago and a Bachelor of Arts degree with honors in economics from Claremont McKenna College.

Shona L. Brown has served as our Senior Vice President of Business Operations since January 2006. Previously, she served as our Vice President of Business Operations since September 2003. Prior to joining us, from October 1995 to August 2003, Shona was at McKinsey & Company, a management consulting firm, where she had been a partner in the Los Angeles office since December 2000. Shona holds a Ph.D. and Post-Doctorate in industrial engineering and engineering management from Stanford University, a Masters of Arts degree from Oxford University (as a Rhodes Scholar), and a Bachelor of Science degree in computer systems engineering from Carleton University.

Alan Eustace has served as our Senior Vice President of Engineering and Research since January 2006. Previously, he served as a Vice President of Engineering since July 2002. Prior to joining us, from May 2002 to June 2002, Alan was at Hewlett-Packard, a provider of technology products, software and services. Prior to that, Alan worked at Compaq from June 1998 until its acquisition by Hewlett-Packard in May 2002, where he most recently served as Director of the Western Research Laboratory. Prior to that, Alan held various positions at Digital Equipment Corporation until its acquisition by Compaq in June 1998. Alan holds a Bachelor of Science degree, a Masters of Science degree and a Ph.D. in computer science from the University of Central Florida.

The information required by this item regarding our directors and corporate governance matters is included under the captions Corporate Governance and Board of Directors Matters and Proposals to be Voted On Proposal Number 1 Election of Directors in Google s Proxy Statement for its 2009 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2008 (the 2009 Proxy Statement) and is incorporated herein by reference. The information required by this item regarding delinquent filers pursuant to Item 405 of Regulation S-K is included under the heading Section 16(a) Beneficial Ownership Reporting Compliance in the 2009 Proxy Statement and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is included under the captions Director Compensation and Executive Compensation in the 2009 Proxy Statement and incorporated herein by reference.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is included under the captions Common Stock Ownership of Certain Beneficial Owners and Management and Executive Compensation Equity Compensation Plan Information in the 2009 Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is included under the captions Certain Relationships and Related Transactions and Corporate Governance Independence of Directors in the 2009 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is included under the caption Independent Public Accountants in the 2009 Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE

(a) We have filed the following documents as part of this Annual Report on Form 10-K:

1. Consolidated Financial Statements

2. Financial Statement Schedule

Schedule II: Valuation and Qualifying Accounts

All other schedules have been omitted because they are not required, not applicable, or the required information is otherwise included.

Schedule II: Valuation and Qualifying Accounts

Allowance for Doubtful Accounts and Sales Credits	Balance at Beginning of Year	Charged to Expenses/ Against Revenue	Write-Offs, Net of Recoveries	Balance at End of Year
		(In thousands)		
Year ended December 31, 2006	$ 14,852	$ 9,899	$ (7,837)	$ 16,914
Year ended December 31, 2007	$ 16,914	$ 46,001	$ (30,028)	$ 32,887
Year ended December 31, 2008	$ 32,887	$ 161,234	$ (114,035)	$ 80,086

Note: Additions to the allowance for doubtful accounts are charged to expense. Additions to the allowance for sales credits are charged against revenues.

3. Exhibits.

See the Exhibit Index immediately following the signature page of this Annual Report on Form 10-K.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, on February 13, 2009.

GOOGLE INC.

By: /s/ ERIC E. SCHMIDT
Eric E. Schmidt
Chairman of the Board of Directors and

Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Eric E. Schmidt and Patrick Pichette, jointly and severally, his or her attorney-in-fact, with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Annual Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his or her substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ ERIC E. SCHMIDT **Eric E. Schmidt**	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	February 13, 2009
/s/ PATRICK PICHETTE **Patrick Pichette**	Chief Financial Officer (Principal Financial and Accounting Officer)	February 13, 2009
Sergey Brin	President of Technology, Assistant Secretary and Director	
/s/ LARRY PAGE **Larry Page**	President of Products, Assistant Secretary and Director	February 13, 2009
/s/ L. JOHN DOERR **L. John Doerr**	Director	February 13, 2009
/s/ JOHN L. HENNESSY **John L. Hennessy**	Director	February 13, 2009
/s/ ARTHUR D. LEVINSON **Arthur D. Levinson**	Director	February 13, 2009
/s/ ANN MATHER **Ann Mather**	Director	February 13, 2009

/s/ PAUL S. OTELLINI **Paul S. Otellini**	Director	February 13, 2009
/s/ K. RAM SHRIRAM **K. Ram Shriram**	Director	February 13, 2009
/s/ SHIRLEY TILGHMAN **Shirley Tilghman**	Director	February 13, 2009

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Exhibit		Incorporated by reference herein	
Number	Description	Form	Date
1.01	Form of Distribution Agreement dated April 20, 2007 among Google Inc., Morgan Stanley & Co. Incorporated, Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC and UBS Securities LLC (the Distribution Agreement)	Current Report on Form 8-K (File No. 000-50726)	April 23, 2007
1.01.1	Amendment No. 1 to the Distribution Agreement among Google Inc. and J.P. Morgan Securities Inc. entered into as of July 20, 2007	Quarterly Report on Form 10-Q (File No. 000-50726)	August 9, 2007
1.02	Form of Bidding Rules Agreement dated April 20, 2007 among Google Inc., Morgan Stanley & Co. Incorporated, as Auction Manager and Bidder, Citigroup Global Markets Inc. as Warrant Agent and Bidder and Credit Suisse Securities (USA) LLC and UBS Securities LLC, as Bidders (the Bidding Rules Agreement)	Current Report on Form 8-K (File No. 000-50726)	April 23, 2007
1.02.1	Amendment No. 1 to the Bidding Rules Agreement among Google Inc. and J.P. Morgan Securities Inc., as Bidder entered into as of July 20, 2007	Quarterly Report on Form 10-Q (File No. 000-50726)	August 9, 2007
2.1	Agreement and Plan of Merger by and among Google Inc., Whopper Acquisition Corp. and Click Holding Corp., dated as of April 13, 2007	Current Report on Form 8-K (File No. 000-50726)	April 19, 2007
3.01	Third Amended and Restated Certificate of Incorporation of Registrant as filed August 24, 2004	Registration Statement on Form S-l, as amended (File No. 333-114984)	August 9, 2004
3.02	Amended and Restated Bylaws of Registrant, effective as of August 24, 2004	Registration Statement on Form S-l, as amended (File No. 333-114984)	August 9, 2004
4.01	Investor Rights Agreement dated May 31, 2002	Registration Statement on Form S-l, as amended (File No. 333-114984)	April 29, 2004
4.01.1	Amendment to Investor Rights Agreement dated August 17, 2004	Registration Statement on Form S-l, as amended (File No. 333-114984)	August 18, 2004
4.02	Specimen Class A Common Stock certificate	Registration Statement on Form S-l, as amended (File No. 333-114984)	August 18, 2004
4.03	Specimen Class B Common Stock certificate	Registration Statement on Form S-l, as amended (File No. 333-114984)	August 18, 2004
4.04	Registration Rights Agreement dated October 9, 2006 (with stockholders of YouTube, Inc.)	Registration Statement on Form S-3 (File No. 333-140498)	February 7, 2007

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Exhibit Number		Description	Incorporated by reference herein Form	Date
4.05		Form of Warrant Agreement dated April 20, 2007 among Google Inc., Citigroup Global Markets Inc. as Warrant Agent, and Morgan Stanley & Co. Incorporated, Citigroup Global Markets Inc., Credit Suisse Management LLC, and UBS AG, London Branch, as Warrantholders (the Warrant Agreement)	Current Report on Form 8-K (File No. 000-50726)	April 23, 2007
4.05.1		Amendment No. 1 to the Warrant Agreement among Google Inc. and J.P. Morgan Securities Inc., as Warrantholder entered into as of July 20, 2007	Quarterly Report on Form 10-Q (File No. 000-50726)	August 9, 2007
10.01		Form of Indemnification Agreement entered into between Registrant, its affiliates and its directors and officers	Registration Statement on Form S-l, as amended (File No. 333-114984)	July 12, 2004
10.02	♥	1998 Stock Plan, as amended	Quarterly Report on Form 10-Q (File No. 000-50726)	August 9, 2006
10.02.1	♥	1998 Stock Plan Form of stock option agreement	Registration Statement on Form S-l, as amended (File No. 333-114984)	April 29, 2004
10.03	♥	Applied Semantics, Inc. 1999 Stock Option/Stock Issuance Plan, as amended	Quarterly Report on Form 10-Q (File No. 000-50726)	August 9, 2006
10.04	♥	2000 Stock Plan, as amended	Quarterly Report on Form 10-Q (File No. 000-50726)	August 9, 2006
10.04.1	♥	2000 Stock Plan Form of stock option agreement	Registration Statement on Form S-l, as amended (File No. 333-114984)	April 29, 2004
10.05	♥	2003 Stock Plan, as amended	Quarterly Report on Form 10-Q (File No. 000-50726)	May 10, 2007
10.05.1	♥	2003 Stock Plan Form of stock option agreement	Registration Statement on Form S-l, as amended (File No. 333-114984)	April 29, 2004
10.06	♥	2003 Stock Plan (No. 2), as amended	Quarterly Report on Form 10-Q (File No. 000-50726)	May 10, 2007
10.06.1	♥	2003 Stock Plan (No.2) Form of stock option agreement	Registration Statement on Form S-l, as amended (File No. 333-114984)	April 29, 2004
10.07	♥	2003 Stock Plan (No.3), as amended	Quarterly Report on Form 10-Q (File No. 000-50726)	May 10, 2007
10.07.1	♥	2003 Stock Plan (No.3) Form of stock option agreement	Registration Statement on Form S-l, as amended (File No. 333-114984)	April 29, 2004
10.08	♥	Google Inc. 2004 Stock Plan, as amended	Quarterly Report on Form 10-Q (File No. 000-50726)	August 7, 2008
10.08.1	♥	2004 Stock Plan Form of stock option agreement	Annual Report on Form 10-K (File No. 000-50726)	March 30, 2005
10.08.2	♥	2004 Stock Plan Form of restricted stock unit agreement	Annual Report on Form 10-K (File No. 000-50726)	March 30, 2005

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Exhibit			Incorporated by reference herein	
Number		**Description**	**Form**	**Date**
10.08.3	♥	2004 Stock Plan Amendment to stock option agreements	Registration Statement on Form S-3 (File No. 333-142243)	April 20, 2007
10.08.4	♥	2004 Stock Plan Form of stock option agreement (TSO Program)	Registration Statement on Form S-3 (File No. 333-142243)	April 20, 2007
10.09	♥	Ignite Logic, Inc. 2003 Equity Incentive Plan, as amended	Quarterly Report on Form 10-Q (File No. 000-50726)	August 9, 2006
10.10	♥	Lifescape Solutions, Inc. 2001 Stock Plan, as amended	Quarterly Report on Form 10-Q (File No. 000-50726)	August 9, 2006
10.11	♥	Keyhole, Inc. 2000 Equity Incentive Plan, as amended	Quarterly Report on Form 10-Q (File No. 000-50726)	August 9, 2006
10.12	♥	Picasa, Inc. Employee Bonus Plan	Registration Statement on Form S-8 (File No. 333-119378)	September 29, 2004
10.13	♥	YouTube, Inc. 2005 Stock Plan	Registration Statement on Form S-8 (File No. 333-138848)	November 20, 2006
10.14		Purchase and Sale Agreement dated June 9, 2006 by and among WXIII/Amphitheatre Realty, L.L.C., WXIII/Crittenden Realty A/B, L.L.C., WXIII/Crittenden Realty C, L.L.C., and WXIII/Crittenden Realty D, L.L.C. and Google Inc.	Quarterly Report on Form 10-Q (File No. 000-50726)	August 9, 2006
10.15		Amended and Restated License Agreement dated October 13, 2003 by and between The Board of Trustees of the Leland Stanford Junior University and Google Inc.	Registration Statement on Form S-l, as amended (File No. 333-114984)	August 16, 2004
10.15.1		License Agreement dated July 2, 2001 by and between The Board of Trustees of the Leland Stanford Junior University and Google Inc.	Registration Statement on Form S-l, as amended (File No. 333-114984)	August 18, 2004
10.16	♥	Google Senior Executive Bonus Plan	Current Report on Form 8-K (File No. 000-50726)	March 28, 2007
10.17	♥	Letter agreement between Google Inc. and Shirley Tilghman dated August 16, 2005.	Current Report on Form 8-K (File No. 000-50726)	October 6, 2005
10.18	♥	Click Holding Corp. 2005 Stock Incentive Plan	Registration Statement on Form S-8 (File No. 333-149956)	March 28, 2008
10.19	♥	Offer Letter between Google Inc. and Patrick Pichette dated June 6, 2008	Current Report on Form 8-K (File No. 00050726)	June 25, 2008
21.01	*	List of Subsidiaries of Registrant		
23.01	*	Consent of Independent Registered Public Accounting Firm		

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Exhibit Number		Description	Incorporated by reference herein Form	Date
24.01	*	Power of Attorney (incorporated by reference to the signature page of this Annual Report on Form 10-K)		
31.01	*	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002		
31.02	*	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002		
32.01		Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002		

♥ Indicates management compensatory plan, contract or arrangement.
Confidential treatment has been requested for portions of this exhibit.
* Filed herewith.
Furnished herewith.